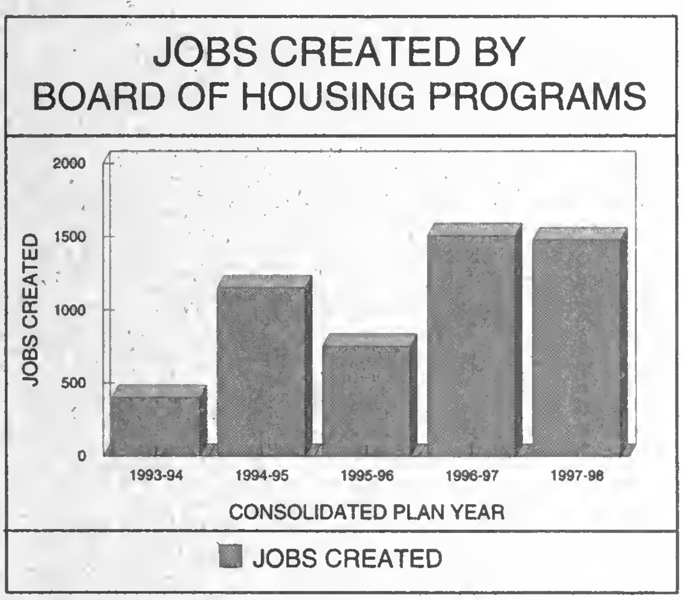
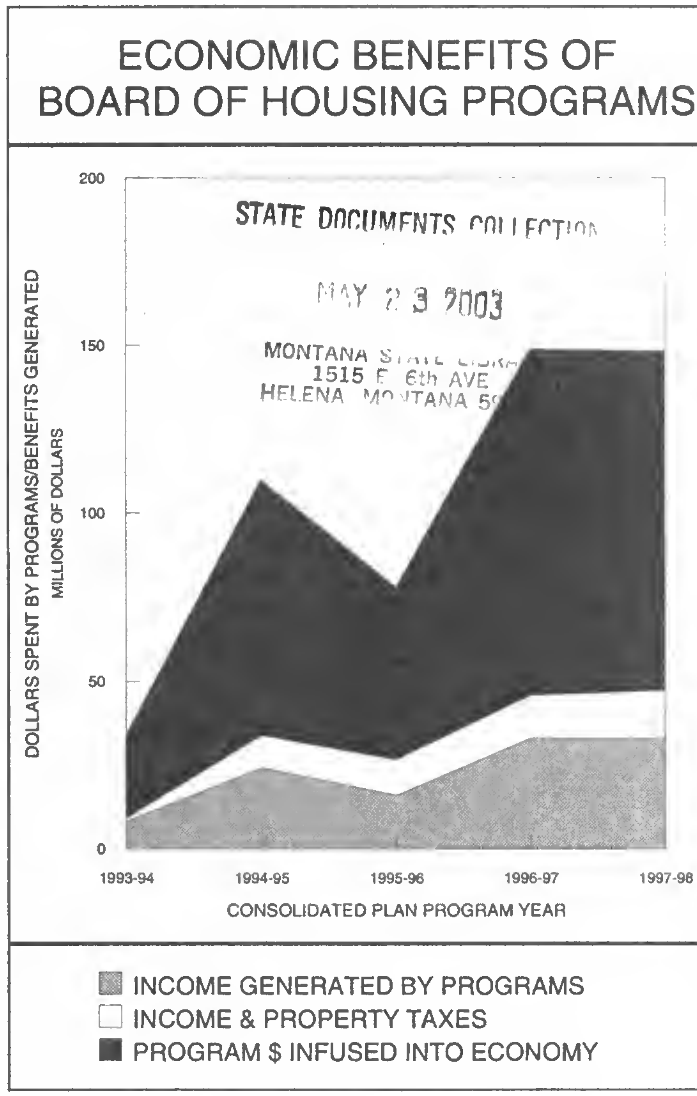
Montana Board of Housing
Annual Report
Fiscal Year 1997-98

Economic Benefits





Housing JOBS Income

Further information on our programs may be obtained by writing:
Montana Board of Housing
836 Front Street
PO Box 200528
Helena, MT 59620-0528
or by telephoning (406) 444-3040

INTRODUCTION

The Montana Board of Housing was created by the Montana Housing Act of 1975. The Board is an agency of the State and operates within the Department of Commerce for administrative purposes. As of June 1, 1995, the Board is attached to the Housing Division within the Department of Commerce, and the Board's Executive Director is also the Administrator of the Housing Division. **Under the Housing Act the Board does not receive appropriations from the State's general fund and is completely self-supporting.** Substantially all of the funds for Montana Board of Housing operations and programs are provided by the private sector through the sale of tax-exempt bonds.

Montana Board of Housing's public purpose is to provide decent, safe, sanitary and affordable housing for lower income individuals and families in the State of Montana. Montana Board of Housing accomplishes this purpose by issuing tax-exempt bonds, administering federal housing programs and working in partnership with many other housing providers throughout Montana.

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MONTANA BOARD OF HOUSING
P.O. Box 200528
HELENA, MONTANA 59620-0528

(406) 444-3040

THE BOARD

The powers of the Board are vested in a seven member Board, appointed by the Governor, subject to the confirmation of the State Senate. The majority of the board members' terms coincide with the four-year term of the Governor; the remaining board members serve four-year terms which expire in the middle of the Governor's term. The Chairman of the Board is appointed by the Governor and other officers of the Board are elected by the board members. Each Board member serves until a successor is appointed and confirmed by the State Senate.

The Board provides policy direction to the agency staff, authorizes bond issues, approves development financing and evaluates Montana Board of Housing Programs. The commitment of time and energy by Board members has resulted in an improved quality of life for thousands of Montana citizens. Their leadership is vital to the Montana Board of Housing's ability to meet Montana's housing needs.

In fiscal year 1997-98 the Board provided over $81 million in single family mortgage financing, helping 1,235 families obtain the dream of home ownership. The Board also allocated $1,982,739 in Low Income Housing Tax Credits for 480 units of rental housing.

Back row, left to right: William Oser, Tom Welch, Bob Savage; Front row, left to right: Ronda Carpenter, Waneeta Farris, Bob Thomas, Barbara Hamlin.

BOARD MEMBERS

Bob Thomas, Chairman *is a retired insurance agency owner in Stevensville, Montana. Bob has served on the Board for 8 years, and has been Chairman for 6. Bob is actively involved in fund-raising for various community activities.*

Robert Savage, Vice Chairman *has a Bachelor of Arts degree and a Doctor of Jurisprudence degree from the University of Montana. Bob is currently a partner in the law firm of Habedank, Cumming, Best & Savage in Sidney, Montana. Bob has served on the Board since 1993, and is also a director and Vice President of the National Conference of State Housing Boards, Washington, D.C.*

William Oser*, Secretary, C.L.U. has lived in Montana and Wyoming most of his life, working for the Bureau of Reclamation and Shell Oil before going in to the insurance business in 1960, from which he retired in 1992. Bill is actively involved in the business community in Billings, Montana. Bill has served on the Board since 1993.*

Waneeta Farris *is Branch Manager of Norwest Bank in Forsyth, Montana. She has been with the bank since it opened in 1983. Waneeta has served on the board since 1995.*

Barbara Hamlin *and her husband Jerry are Broker/Owners of Century 21 Realtors in Helena, Montana. Barbara is a graduate of Carroll College and has been active in the real estate profession for 12 years. Barbara has served on the Board since 1994.*

Tom Welch *is the Chief Executive Officer and President of Pioneer Federal Savings and Loan in Dillon, Montana. He is a Montana native who is a graduate of the University of Montana and is active in a wide variety of local community activities and organizations. Tom has served on the board since March 1997.*

Ronda Carpenter *and her husband own and manage 20 units of rental property in Great Falls, Montana. Ronda is active in landlord associations and is Executive Director of Montana Housing Providers. Ronda teaches courses in property management and does property management consulting. Ronda has served on the Board since March 1997.*

DEPARTMENT OF COMMERCE

Peter S. Blouke, PH.D., was appointed Director of the Montana Department of Commerce by Governor Marc Racicot in January 6, 1997. He brings to Commerce over 20 years experience working in a variety of key administrative positions for the state, including responsibility for consolidating state health and human services programs into the largest agency in state government. Dr. Blouke received his masters and Ph.D. in experimental psychology from the University of Alabama.

LEGAL AND PROFESSIONAL SERVICES

BOARD GENERAL COUNSEL:
Luxan and Murfitt — Helena, MT

INDEPENDENT AUDITOR:
Legislative Audit Division — Helena, MT

BOARD BOND COUNSEL:
Kutak Rock — Omaha, NE

INVESTMENT BANKING TEAM:
Paine Webber Inc. — San Francisco, CA
D. A. Davidson and Co. Inc. — Great Falls, MT
Dain Bosworth, Inc. — Minneapolis, MN
Merrill Lynch Capital Markets — New York, NY
Piper, Jaffray Inc. — Minneapolis, MN

TRUSTEES:
U.S. Bank
Norwest Bank, National Association

MONTANA BOARD OF HOUSING STAFF

EXECUTIVE:

Left to right: Diana Hall, Administrative Assistant; Charles Brown, Administrative Assistant; Maureen Rude, Executive Director.

ACCOUNTING:

Back Row–left to right: Mary Bair, Accounting Technician; Joanne Luksha, Accounting Technician; Sue Mannix, Accountant; N. J. McCullough, Accounting Technician; Jenny Bloom, Accounting Technician; Front Row–left to right: Dolly Snyder, Assistant Accounting and Finance Manager; Kelly Rusoff, Accounting and Finance Manager.

MULTIFAMILY PROGRAM:

Left, Bruce Brensdal, Multifamily Program Manager; Right, Connie Boyer, Program Specialist

SINGLE FAMILY PROGRAM:

Left to right: Meredith Miller, Program Specialist; Bev Murphy, Program Specialist; Lore Morgan, Program Specialist; Bob Morgan, Single Family Program Manager.

CHAIRMAN AND EXECUTIVE DIRECTOR'S MESSAGE

TO THE HONORABLE MARC RACICOT, MEMBERS OF THE STATE LEGISLATURE, MEMBERS OF CONGRESS, BONDHOLDERS, LENDERS, REALTORS, AND HOUSING PROVIDERS:

Representing the Montana Board of Housing (MBOH), we are pleased to present this report on the agency's activities and accomplishments for Fiscal Year 1997-98. The pages of this report provide insight into the production levels of MBOH single family and multifamily programs, as well as the Reverse Annuity Mortgage Program for elderly Montana homeowners. Our message this year is intended to celebrate 20 years of MBOH bond issuance (the first bonds were issued in 1977) and to reflect on the creation of the MBOH and what we have achieved since the MBOH was created.

In February of 1975, the State Administration Committee of the Montana Senate considered HB 354, the Housing Act of 1975. The sponsor of the bill said the state of Montana's economy dictates that the Montana Legislature must do something about the state's housing situation. The sponsor indicated four reasons behind the creation of the Board of Housing: housing is needed according to studies on housing in local cities and towns; the state government needs to get into the business to capture any federal money available; there would be a favorable impact on the economy, with housing projects stimulating jobs, as well as the sale of bonds would increase dollars coming in to the state from private investors; and the creation of the MBOH would accomplish social goals for the administration, with an entity set up to be self-financing and self-sustaining. The bill was concurred in by the committee on March 18, 1975, with a vote of 6 to 2. Chapter 461, Session Laws of 1975, enacted the Housing Act of 1975.

On October 25, 1976, the Test Case for the Constitutionality of the Montana Housing Act of 1975 was submitted to the Supreme Court of Montana, and is now known as the *Huber vs. Groff* case (558 P.2d 1124(1976)). In the *Huber vs. Groff* case, the Court decided on December 29, 1976, that the Act, which has as its purpose the alleviation of high cost of housing for lower income persons and families, and which seeks to accomplish such objective by use of an interest subsidy, does not violate the state constitutional provision that "taxes shall be levied by general laws for public purposes". In addition the court found that the flow of funds under the Act (creation of issuance of revenue bonds by resolution and through use of a trust indenture) does not violate constitutional provisions, including the unified investment fund. The court found that the unified investment fund does not require that all agencies participate regardless of the nature of the agency, where the agency is not using state funds and is setting up its own specialized investment fund with a particular purpose, and the agency may take care of its own funds in a manner appropriate to its function.

The Housing Act has been amended several times, with the MBOH being moved between departments, increases to the debt limit, and expanding definitions of lower income and housing development. However, the main function and purpose of the MBOH was not changed through all of the amendments. In 1987 when the Low Income Housing Tax Credit was passed by Congress, the MBOH was selected as the entity to administer the program. The MBOH allocates these federal tax credits, charging the developers a fee, and conducting a competitive application process.

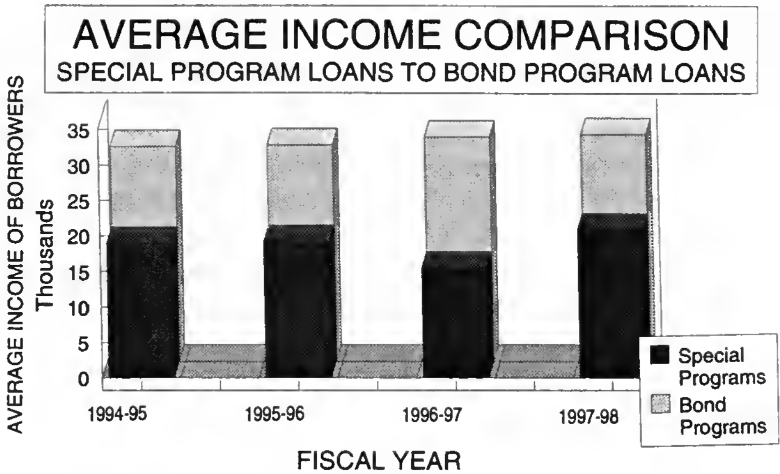
After 20 years of business, the MBOH has issued a grand total of $1,549,730,799 in single and multifamily mortgage revenue bonds. At the end of Fiscal year 1997-98, the MBOH had $522,607,050 of bonds payable outstanding. The MBOH has financed 22,797 single family loans, as well as issued Mortgage Credit Certificates to 2,655 households. The MBOH has provided financing for 789 multifamily rental units, as well as issuing Low Income Housing Tax Credits for 2,592 additional multifamily units. This production of housing loans and projects has been achieved with no state tax dollars and no state or federal appropriations.

In the past few years, the MBOH has placed a special focus on its "special programs". In 1989 the Reverse Annuity Mortgage Program (RAM) was created, and the MBOH has funded this program with its earnings on single family programs. The MBOH advances monthly payments to the RAM borrower, and the principal and interest is not repaid until the borrower dies or moves out of the home. This is not a program the MBOH can sell bonds for, due to the uncertainty and timing of repayment. We have one borrower under the RAM program who, prior to receiving monthly payments from the program, was selling pieces of furniture each month to buy groceries.

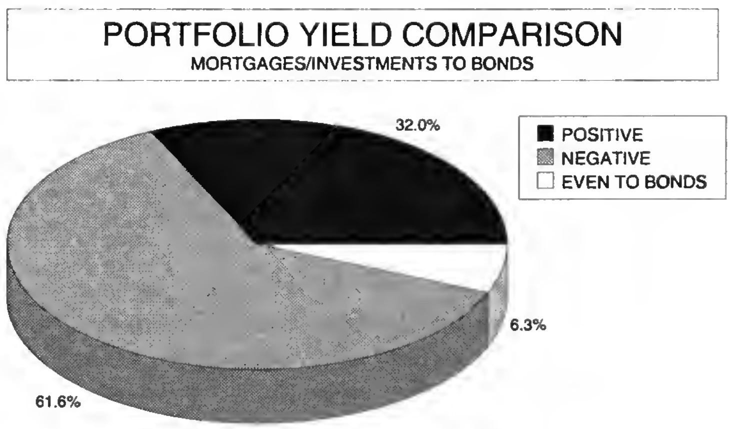
The MBOH has been recycling repayments and prepayments of mortgages for several years. We call this our Recycled Mortgage Programs, where the MBOH "sets aside" first mortgage funds for various community and special

projects, committing the funds for long periods of time while the community or special needs group seeks out sources of down payment assistance and mortgage buy down funds. The program started off with Neighborhood Housing Services in the late 80's, and was expanded in 1994 to any group which had a project and a group of potential home buyers the MBOH was not serving with its current programs. In 1992, 1995, and 1997, the MBOH refunded bond issues which were done before certain tax restrictions were put in place (the Pre-Ullman bonds). These bond issues were structured so that there were 40 year bonds, with no principal due on the bonds for 10 years. This was done to allow recycling of all prepayments and repayments received on the loans, to take advantage of the prior tax law (which did not have the first time home buyer and other restrictions on it) and to provide lower cost financing.

The set-aside program has become critical to the success of many first time home buyer programs around the state. The MBOH has committed over $117 million to these special programs, and originates approximately $19 million of loans each year, at rates which are in most cases below the average coupon on the bonds. The average income on the special programs is less than $21,000, whereas the average income on the regular bond programs is about $32,000. The MBOH has been able to write down the rate on these special program loans to meet the needs of Montana citizens because the MBOH is able to have loans that earn less than the bond rate, due to its fund balance. As of the end of FY 98, the MBOH had $22,484,048 in outstanding Recycled Mortgage Program commitments. We intend to continue these special programs as we are serving Montana citizens we would not otherwise be able to serve. One of our favorite stories is a project where small houses were built using construction techniques that saved money. The houses were simple, and the buyers were lined up as construction started on each home. One lady, who was buying her first home at over age 60, walked by the house she was buying at least once every day, rain or shine, because she was so excited to move into the first house she would ever own. We have many of these stories from these special programs, and we love to hear them.



As of the end of fiscal year 1997-98, in its single family programs, the MBOH had mortgages totaling $422,676,108. Of these mortgages, 31.7 percent are earning a positive yield as compared to the average coupon on the bonds, and 68.3 percent are in a net negative mortgage yield. From the investment standpoint, the MBOH had $166,827,593 in investments (not taking into account the results of GASB31) at the end of FY 98, with 33 percent in a positive yield to the bonds, 22.8 percent earning even to the bonds, and 44.2 percent earning negative yield to the bonds. Federal arbitrage rules do not allow the MBOH to keep investment earnings over the bond yield, so any interest earned above the bond yield on the $55 million in positive yield position must be rebated to the Treasury. The MBOH bonds are overcollateralized with assets (resulting in a fund balance), but the majority of the assets are not earning at the rate we are paying out to bondholders. In order to meet the MBOH's mission, the MBOH is attempting to balance managing the portfolio to leverage the most low interest loans possible, while still earning a positive net income and meeting all of its debt responsibilities, and maintaining its excellent ratings on the national market.



Comparison of mortgage and investment yield to yield paid out on bonds. Mortgage yield adjusted for servicing fees and costs of operation.

As illustrated on the cover of the report, the MBOH programs generate significant economic benefits to the state. The programs create jobs, 1,509 in 1996-97, and 1,480 in 1997-98. The programs infuse money directly into the economy, over $100 million in each of the last two years (from bond proceeds spent on the mortgages purchased from lenders and from investor monies generated by developers selling Low Income Housing Tax Credits to generate equity spent on projects). The programs create basic and non-basic income, $32.8 million in 1996-97 and $33 million in 1997-98 (the original bond proceeds and equity dollars are spent and this creates income for people in the industry, which is then spent and works its way through the economy). The programs also create income and property taxes paid by Montanan's, $12.9 million in 1996-97, and $14.5 million in 1997-98.

In looking back to the second paragraph of this message, the four reasons for creating the MBOH, we think we have accomplished what the Legislature envisioned. We are creating housing, through our multifamily programs, which finance approximately 60% of the multifamily housing built in our state, and through our single family programs, which finance 1 in every 5.4 new home owners in Montana. We are in the housing business, and we are helping local communities take advantage of federal programs available by providing mortgages for projects developed locally using federal grant programs. We are having a favorable impact on the economy, bringing in outside investor money through the sale of bonds and developer use of the Low Income Housing Tax Credit. We are stimulating the creation of jobs in the housing area. We are accomplishing the social goals envisioned by the Legislature in 1975, with an entity that is self-financing and self-sustaining, and an entity that is able to do more special program financing than any of us ever imagined. We are proud to be in this business and we intend to help Montanan's with housing finance for the next 20 years.

Yours very truly,

Bob Thomas

Bob Thomas
Chairman

Maureen J. Rude

Maureen J. Rude
Executive Director

ECONOMIC BENEFITS OF BOARD OF HOUSING PROGRAMS

In September of 1998, the Department of Commerce published a draft study "Economic Benefits of MDOC Housing and Infrastructure Program Activities". The study provides information on the economic benefits for each of the housing programs in the Department, including the MBOH. The MBOH programs have provided an input into the economy (through the sale of bonds and the issuance of Low Income Housing Tax Credits) during federal plan year 1997 and 1998, of over $194 million. This has resulted in the following:

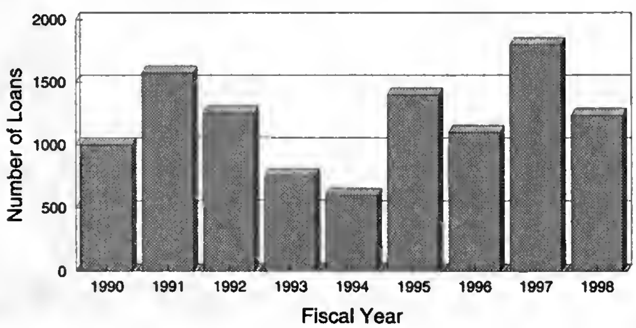
- $65,963,329 of basic and non-basic income generated. As program funds are spent, a portion of these funds become earnings for the "basic" workers; workers spending the basic income causes a predictable amount of non-basic employment and income. These two spending categories total the income generated from the program.
- 2,990 jobs created.
- $1,726,756 paid in income taxes by workers because of MBOH housing programs (i.e., construction trades, banking, realty).
- $25,769,515 in property taxes paid by property owners for housing built and purchased with the Board's programs.

For more detailed information on this study, please contact the MBOH at 444-3040 for a copy of the complete study.

SINGLE FAMILY PROGRAMS

The Board, during the course of Fiscal Year 1998, offered the Single Family Mortgage Program, the Recycled Single Family Mortgage Program, and the Home Buyers Cash Assistance Program. Over the past 20 years the Board has helped over 25,000 individuals and families become homeowners.

This year the MBOH Single Family Programs purchased a record number of loans: 1,235.



SINGLE FAMILY MORTGAGE PROGRAM

The home financing program is exclusively supported from the sale of tax-exempt Mortgage Revenue Bonds issued periodically by the Board. The tax-exempt status allows the agency to pass along the interest savings to lower income persons and families in the form of low-interest home loans.

Mortgage loan applications are originated and processed in compliance with FHA, VA or the Rural Development (RD) Guaranteed Rural Housing Loan Program underwriting criteria by Board-approved Montana real estate lenders. The person or family reserves mortgage funds through an approved lender on a first-come first-serve basis with the Board.

The FHA insured, VA guaranteed or RD guaranteed mortgage is generally made for a term of 30 years. The mortgage interest rate is determined by the price the Board must pay to investors on the tax-exempt bonds. Each person or family, in addition to qualifying under the FHA, VA or RD requirements, must also meet certain program loan requirements and Federal Eligibility Requirements. Generally, the requirements for each person or family are as follows:

- the home is to be owner-occupied with limited business use of the property;
- the purchaser is to be a first-time home buyer except for certain targeted areas;
- the purchase price of an existing home may not exceed the FHA maximum mortgage limit for the area (or $100,000 if the FHA maximum is higher than $100,000);
- family income may not exceed income limitations as established by the Board;
- the refinancing of an existing home loan is not permitted.
- The acquisition cost of a new home (lot, well, septic, construction cost) cannot exceed 135% of the FHA maximum mortgage limit for the area (maximum of $135,000). The loan amount cannot exceed the FHA maximum mortgage limit for the area (maximum $100,000).

During the Fiscal Year ended June 30, 1998 the Board originated over $81 million in mortgages, assisting 1,235 Montanans with home ownership. 865 of the mortgages were made with new bond funds, and 370 with recycled funds.

RECYCLED SINGLE FAMILY MORTGAGE PROGRAM

The Board has made additional mortgage funds available through the recycling of mortgage prepayments and other funds held under prior bond issues of the Single Family Mortgage Program. The Board's goal with the recycled funds is to assist those lower income persons and families which do not have the financial capabilities to purchase a safe and sanitary home through other Single Family Programs. Applications for recycled fund set asides are submitted through the Board's "Request for Proposal" process, on a monthly basis.

CITY OF BILLINGS AFFORDABLE FIRST-TIME HOME BUYERS PROGRAM

The Board set aside $7,000,000 in recycled mortgage funds to provide the permanent financing for first-time home buyers in the city of Billings whose incomes do not exceed 60% of the median and for one reason or another do not qualify for traditional financing without assistance. The City of Billings will provide assistance for down payment, closing cost, mortgage buy down, and minor home repairs for low income individuals who are currently unable to become homeowners. The City of Billings funds are provided through the Federal HOME Program under which the City is an entitlement community. This program has provided financing for 146 home buyers, whose average income was $19,125, with an average permanent loan amount of $52,818 in fiscal year 1998. The Board set aside an additional $2,000,000 for this program for fiscal year 1999.

BUTTE-SILVER BOW TULLAMORE PROJECT

The Board set aside $1,578,000 in recycled mortgage funds, to provide the permanent financing for 24 single family homes in the Tullamore Project for low income individuals in Butte who can not qualify for a mortgage loan without assistance. The City of Butte has provided $130,142 in cash, 8 acres of land in the Centerville area in downtown Butte for the project, and will provide $67,200 in tax abatement to the home buyers. The City has been awarded a $540,000 grant from the HOME Program to finance the infrastructure and provide down payment, closing cost, and mortgage buy down assistance. They have also received a $120,000 grant from the Federal Home Loan Bank to provide additional assistance in order to target low and very low income individuals for the project. The water, sewer, utilities and streets have been completed. Twelve homes have been completed. Home buyer income has averaged $25,800 with an average permanent loan amount of $73,600. The final 12 homes are scheduled to be completed the last half of calendar year 1998.

CITY OF KALISPELL AFFORDABLE FIRST-TIME HOME BUYERS PROGRAM

The Board set aside $1,628,000 in recycled mortgage funds to provide the permanent financing of 24 three and four-bedroom units in the City of Kalispell's South Woodland Avenue Project and $1,058,000 in recycled mortgage funds to provide the permanent financing of 20 two-bedroom units in the City of Kalispell's South Meadows Project for low income first-time home buyers in the city of Kalispell. The City of Kalispell has been awarded $800,000 from HOME and CDBG to develop the seven acre city-owned South Woodland Avenue site. The City will use $200,000 in UDAG program income to finance the infrastructure on the South Meadows site. Additionally, the City will use a $198,000 Federal Home Loan Bank grant to provide down payment and closing cost assistance to the home buyers. Infrastructure has been completed on both sites. Six homes have been completed. Home buyer income has averaged $24,467 and permanent loans have averaged $57,800.

DISTRICT IX HUMAN RESOURCE COUNCIL'S LIVINGSTON LAND TRUST PROJECT

The Board set aside $1,447,630 in recycled mortgage funds, with $420,000 for the first phase, to provide the permanent financing of 22 single family townhouses for low income residents on a lease purchase arrangement with the District IX Human Resource Council. The City of Livingston has donated 17 acres of land for the project. The District IX Human Resource Council has been awarded $400,000 from CDBG to finance part of the infrastructure for the project. They have been awarded $432,000 from the HOME Program for partial funding of the infrastructure and to provide down payment, closing cost, and mortgage buy down assistance. They have also been successful in obtaining a low interest construction loan from the Local Initiatives Support Corporation (LISC) for $300,000. Infrastructure has been completed. Four homes have been completed. Home buyer income has averaged $19,400 and permanent loans have averaged $62,600.

GLACIER AFFORDABLE HOUSING FOUNDATION

The Board set aside $5,950,000 in recycled mortgage funds to provide the permanent financing for 100 single family homes in Flathead, Glacier, Lake, Lincoln, Sanders and Yellowstone Counties for low and very low income individuals. The Foundation has been successful in obtaining a grant from the Federal Home Loan Bank for $610,000 and grants from the HOME program totaling $896,517 to provide down payment, closing cost, and mortgage buy down assistance. The Foundation also received CDBG grants totaling $400,000 to provide additional assistance to low and very low income individuals.

This program has provided financing for 68 home buyers, whose average income was $19,818, with an average permanent loan amount of $50,836.

HUD SECTION 184 INDIAN HOUSING PROGRAM

The Board set aside $1,000,000 in recycled mortgage funds to provide the permanent financing for single family homes located on trust land on an Indian Reservation that are guaranteed by HUD through Section 184 for Native Americans. The Board worked with local banks, Tribal representatives, Bond Counsel, and State and Regional HUD officials to get special consideration and guarantees from the Secretary of HUD in Washington D.C. to enable the Board to participate in this program. The Board has purchased six loans where two of the residences are located on the Blackfeet, and four on the Flathead reservation.

RONAN HOUSING AUTHORITY

The Board set aside $113,200 in recycled mortgage funds to provide the permanent financing for a four-plex to provide rental housing for seniors and handicapped individuals and a single family unit to be rented to a low income family subsidized through the Housing Authority's Tenant Based Rental Assistance Program. The property has been purchased and families are now living in the single family residence and four-plex units.

The Board also set aside $1,200,000 in recycled funds to provide the permanent financing for 20 single family homes in Lake County for low and very low income persons and families. Ronan Housing Authority was successful in obtaining a grant from the Federal Home Loan Bank for $120,000. This program has provided financing for 14 home buyers whose average income was $18,641, for homes whose purchase price averaged $54,092.

WESTERN MONTANA MENTAL HEALTH CENTER/DISTRICT XI HUMAN RESOURCE COUNCIL PROGRAM

Western Montana Mental Health Center and District XI Human Resource Council joined forces to construct low income and special needs housing in Missoula. The Board committed $3,001,000 in recycled mortgage funds to be used to provide the permanent financing. The Board set aside $171,000 for nine new one bedroom units to be occupied by chronically mentally ill individuals earning less than $7,000 annually; $1,330,000 for 27 new one, two and three bedroom units to be sold to individuals earning between $12,350 and $28,000 annually; and $1,500,000 for 18 new two, three, and four bedroom townhouse units to be rented or sold to individuals with incomes ranging from 30% to 80% of median. This program has provided financing for 52 home buyers, whose average income was $18,462, with an average permanent loan amount of $54,102.

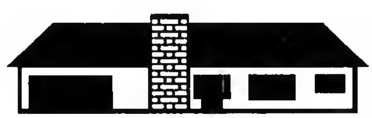
DISABLED ACCESSIBLE AFFORDABLE HOME OWNERSHIP PROGRAM

The Board set aside $9,050,000 to provide affordable architecturally accessible homes for people with permanent disabilities and mobility impairments. The Board has financed a total of 102 homes through June of 1998 with $6,172,500 in recycled mortgage funds. The average household income is $16,879 with an average loan amount of $60,087. Loans are distributed among 21 Montana Counties.

NEIGHBORHOOD HOUSING SERVICES, INC. OF GREAT FALLS (NHS)

NHS, a non-profit housing provider, has been in operation since 1980 and has had a major impact in revitalizing two neighborhoods in Great Falls and 10 other counties. The Board began work with NHS in 1986, to offer affordable home ownership opportunities to lower income individuals and families in conjunction with NHS's neighborhood revitalization.

The Board has provided $12,133,171 in permanent mortgages to date, and has committed an additional $2,730,846 of recycled mortgage funds, since 1986, for nine separate low income home ownership programs sponsored by NHS. As of June 30, 1998, through the excellent partnership with NHS, over 245 individuals and families have achieved affordable home ownership, **with 44 of those becoming homeowners in Fiscal Year 1998.**



RICHLAND COUNTY FIRST-TIME HOME BUYER PROGRAM

The Board set aside $152,230 in recycled mortgage funds to provide the permanent financing of three newly constructed homes. The county will use $155,176 of grant funds to provide down payment and closing cost assistance, and buy down the construction cost to provide affordable housing for home buyers whose income is 65% or less of median income.

HOME BUYERS CASH ASSISTANCE PROGRAM

This program, initiated in May, 1991 by the Board, is targeted to assist those credit worthy persons and families lacking the financial resources to purchase a home under any other of the Board's home ownership programs. In order to be eligible for the program, the home buyers may not have annual income in excess of $26,000 and the home's purchase price may not exceed $70,000. Cash assistance of up to 50% of the minimum cash required to close a loan (maximum advance of $2,500), combined with 6% 30 year mortgage money is available for eligible home buyers.

Through June 30, 1998, the Board provided financing for 501 home buyers, whose average income was $18,254, with an average permanent loan amount of $44,257 and an average cash assistance loan of $672. **This program assisted 99 home buyers during Fiscal Year 1998.**

RURAL HOUSING LOAN LEVERAGING PROGRAM

The Board initially set aside $659,200 of recycled funds at 6.0% interest for a proposal from Rural Development (RD) to leverage $659,200 from RD with interest rates that range from 1.0% for borrowers whose income does not exceed 50% of the area median income, to 2.0% for borrowers whose income does not exceed 55% of the area median income, and to 3.0% for borrowers whose income does not exceed 60% of the area median income. In this program MBOH will purchase a first mortgage, (30 year, FHA insured, 6.0% rate) for half of the loan. RD will make a loan secured by a second mortgage at a 1.0%, 2.0%, or 3.0% rate for the other half of the loan. This program has provided financing for 180 home buyers, whose average income was $20,638, with an average permanent loan amount of $33,313. Due to the success of the program, the Board set aside an additional $2,500,000 and raised the income limits to 80% of the area median income. A total of $5,966,340 has been provided for permanent mortgages.

CITY OF LAUREL FIRST-TIME HOME BUYER PROGRAM

The Board set aside $1,000,000 for permanent financing of homes for low and very low income home buyers. The city of Laurel used $400,000 of grant funds from the Federal Home Bank Program, $100,000 of Community Development Block Grant Funds and five city lots to provide affordable housing. The city used approximately $22,300 subsidy on each of 8 homes for home buyers whose income is less than 50% of the area median income, $13,583 subsidy on each of 12 homes for home buyers whose income is between 50% and 65% of the area median income, and $5,834 subsidy on each of ten homes for home buyers whose income is between 65% and 80% of the area median income. The average income of the home buyers assisted averaged $20,893. The permanent mortgages averaged $52,163.

HABITAT FOR HUMANITY MORTGAGE REINVESTMENT PROGRAM

The Board set aside $750,000 for 20 permanent mortgages for Habitat for Humanity Affiliate Member Families. This provides the local Habitat for Humanity Affiliate the ability to recover its construction cost from the home constructed and start construction on an additional home in 1998. The program is designed to allow the Habitat for Humanity Affiliates to double their production by each Affiliate building two homes in 1998 instead of one. The average incomes of the Member Families financed by the Program have averaged $15,042 and the permanent mortgages have averaged $38,649.

FIRST-TIME HOME BUYER SAVINGS ACCOUNT PROGRAM

The Board set aside $1,000,000 in November of 1997 for permanent mortgages for home buyers who have established a qualified savings account for downpayment and closing cost. To date the board has committed financing for four home buyers whose incomes have averaged $33,242 for homes that have an average purchase price of $83,806.

CITY OF LEWISTOWN FIRST-TIME HOME BUYER PROGRAM

The Board set aside $1,000,000 for permanent financing of 20 homes for low and very low income home buyers in Lewistown. The City of Lewistown will use $268,000 from a HOME program grant, $21,000 from a Federal Home Loan Bank grant for rehab, downpayment, and closing cost. To date the Board has committed financing to three families whose income averages $20,374 for homes whose financing averages $33,533.

SINGLE FAMILY MORTGAGE PROGRAM LOANS PURCHASED BY COUNTY

County	Number Of Loans Purchased: Cumulative 4/1/77-FY98	Number Of Loans Purchased: FY98 Activity	Original Loan Amount: Cumulative 4/1/77-FY98	Original Loan Amount: FY98 Activity
Beaverhead	93	5	$ 4,188,369	$ 354,133
Big Horn	69	7	2,897,358	296,198
Blaine	83	4	3,137,996	187,644
Broadwater	69	5	3,122,341	252,000
Carbon	79	6	3,457,309	318,953
Carter	1	0	18,000	0
Cascade	3,822	200	189,403,191	13,877,226
Choteau	34	2	1,311,035	115,868
Custer	507	25	18,298,375	1,101,620
Daniels	3	0	69,802	0
Dawson	316	15	12,085,027	614,626
Deer Lodge	165	7	5,634,168	335,774
Fallon	41	2	1,628,848	111,253
Fergus	149	11	5,514,397	568,840
Flathead	2,024	128	112,287,524	9,423,910
Gallatin	859	31	44,855,650	2,420,098
Garfield	3	0	80,550	0
Glacier	98	10	4,241,977	461,002
Golden Valley	6	1	255,671	61,900
Granite	8	0	290,008	0
Hill	633	53	28,950,027	2,910,124
Jefferson	114	3	5,747,781	207,554
Judith Basin	9	2	356,714	89,096
Lake	346	34	16,719,069	2,127,858
Lewis and Clark	1,599	99	80,447,388	6,951,912
Liberty	7	0	228,139	0
Lincoln	220	16	9,394,655	953,703
McCone	20	1	790,586	47,456
Madison	49	0	2,254,836	0
Meagher	43	1	1,631,805	66,462
Mineral	73	4	3,113,689	206,153
Missoula	3,054	82	168,380,150	6,723,858
Musselshell	28	3	1,179,966	141,339
Park	236	10	9,629,399	674,603
Petroleum	1	0	19,550	0
Phillips	36	2	1,531,353	162,268
Pondera	107	4	4,124,364	188,709
Powder River	5	0	178,975	0
Powell	86	9	3,529,934	512,022
Prairie	7	0	269,936	0
Ravalli	288	27	14,580,613	1,787,709
Richland	359	14	14,622,289	526,451
Roosevelt	98	1	3,830,335	36,324
Rosebud	60	3	2,697,017	186,713
Sanders	41	7	1,827,184	365,884
Sheridan	26	3	986,230	121,610
Silver Bow	730	27	27,382,984	1,607,214
Stillwater	72	3	3,574,199	205,818
Sweetgrass	25	2	1,214,675	119,000
Teton	51	5	2,210,594	248,916
Toole	72	8	2,623,827	270,881
Treasure	1	1	65,620	65,620
Valley	123	10	4,791,787	439,206
Wheatland	11	3	364,812	115,815
Wibaux	3	0	84,031	0
Yellowstone	5,664	339	295,575,848	22,763,395
STATE TOTAL	22,726	1,235	$1,127,687,957	$81,324,718

ACCOUNTING AND REPORTING

The Accounting and Reporting function at the Board accounts for approximately 8,800 mortgages totaling in excess of $437 million. This includes reconciling all mortgages on a monthly basis from reports received from approximately 50 contracted loan servicers. This year the staff also accounted for $56.5 million in mortgage prepayments and repayments according to Indenture direction. The accounting staff accounts for principle and interest on bonds payable of approximately $522 million in 24 bond issues. In addition, the staff processed $48 million in bond calls and maturities in fiscal year 1998. The accounting staff also accounted for investment purchases of approximately $552 million, and maturities and sales of approximately $566 million.

MULTIFAMILY PROGRAMS

The Board has financed or assisted in the financing of 3,381 multifamily housing units through June 30, 1998 in the State of Montana. Assistance in the development and retention of affordable multifamily units for lower income Montanans has been accomplished through the Multifamily Bond Programs and the Low Income Housing Tax Credit Program.

MULTIFAMILY BOND PROGRAM

From 1978 to 1996, the Board financed 692 multifamily housing units in the State. The following chart shows the mortgages funded directly by bond proceeds.

SUMMARY OF MULTIFAMILY BOND PROGRAM/LOANS

Series and Project:	Location	Units	Original Principal Amount	Construction Loan Rate	Permanent Mortgage Loan Rate
1978 Series A:					
Clark Fork Manor	Missoula	134	$ 4,628,000	8.0%	7.0%
1979 Series A (1992 Series A):					
Crestwood Inn	Sidney	72	2,188,500	9.0%	7.5%
Silver Bow Village	Butte	60	1,925,000	8.5%	7.5%
Broadview Manor	Great Falls	20	713,200	8.5%	7.5%
Oakwood Village	Havre	60	1,793,600	8.5%	7.5%
The Elmwoods	Great Falls	18	576,900	8.5%	7.5%
		230	7,197,200		
1982 Series A (1992 Series A):					
Grand View Place	Missoula	48	1,695,200	12.0%	12.0%
Other:					
Miles Building	Livingston	40	1,081,885	14.5%	NA
Cut Bank Hotel	Cut Bank	20	525,400	10.0%	11.0%
		60	1,607,285		
1980 Series A Construction Loan Notes:					
Cedar View	Malta	32	1,269,900	11.0%	NA
Chair III	Whitefish	16	618,400	11.0%	NA
El Dorita Village	Kalispell	36	1,092,000	11.0%	NA
Rose Park Plaza	Billings	112	3,222,100	11.0%	NA
		196	6,202,400		
1996 Series A:					
West Babcock Apartments	Bozeman	24	830,000	NA	7.25%
		692	**$22,160,085**		

PILOT PROGRAM FOR MULTIFAMILY RENTAL HOUSING

In February of 1993, the Board introduced its Pilot Program for Rental Housing by seeking proposals from governmental units, non-profits attached to governmental units and private non-profits to develop multifamily rental housing.

Since its inception the Board has loans through the Multifamily Pilot Program for Rental Housing to non-profit and governmental sponsors for the following projects:

Project:	Location	Units	Original Principal Amount	Permanent Mortgage Loan Rate
LOANS CLOSED				
Minnesota	Missoula	2	$ 41,260	6%
Strand	Missoula	2	$ 62,872	6%
Ronan Duplex	Ronan	2	$ 85,895	6%
Ronan 4-Plex	Ronan	4	$ 120,435	6%
Courtyard	Kalispell	16	$ 268,523	6%
Bozeman Interfaith	Bozeman	9	$ 227,351	6%
Holland Park	Great Falls	8	$ 266,000	6%
Spring Garden	Billings	16	$ 121,000	6%
		59	$1,182,336	

RISK SHARING PROGRAM FOR MULTIFAMILY HOUSING

On June 13, 1994 the Board received final approval from the Department of Housing and Urban Development (HUD) to participate in the Risk Sharing Program. The Risk Sharing Program works in partnership with HUD, whereby HUD provides mortgage loan insurance and the Board provides mortgage underwriting and loan management as well as financing, and the two entities share the risk of loss from a project default. Currently the Board has the following projects:

Project:	Location	Units	Principal Amount	
LOANS CLOSED				
Phillips Apartments	Missoula	8	$ 269,000	
West Babcock Apartments	Bozeman	24	$ 830,000	(96A Bond Issue)
		32	1,099,000	

The Board intends to finance the Program through the sale of tax-exempt multifamily bonds. The Board received 175 units of insurance authority and will be able to offer the remaining 143 units in 1998-99.

G.O. PROGRAM FOR MULTIFAMILY RENTAL HOUSING

The Board's General Obligation (G.O.) Program for Multifamily Rental Housing provides mortgage financing to owners of qualifying housing when the owner agrees to restrict the rents to a specific amount, and to rent only to tenants below a maximum income level (generally 50 or 60% of median income). Currently this program is financing the permanent loans for small projects which receive multiple sources of funding through other programs, where rents on the project are affordable to very low income state residents. This program is being funded through revenues within the existing multifamily indenture and will be funded by future G.O. bond issues. Currently the Board has the following projects:

Project:	Location	Units	Principal Amount
LOANS CLOSED			
Meadowlark Townhomes	Chester	6	$236,000
Whitefish Apartments	Whitefish	4	$138,037
The Bridge Apartments	Missoula	20	$250,000
		30	$624,037
LOANS COMMITTED			
Pond Row	Bozeman	20	$567,500
Parkside Apartments	Hamilton	24	$225,000
Superior Senior Housing	Superior	8	$128,000
		52	$920,500

LOW INCOME HOUSING TAX CREDIT PROGRAM

The Low Income Housing Tax Credit, established by Congress in the Tax Reform Act of 1986, is intended to provide for the retention, rehabilitation and construction of low income rental housing. Through the tax credit, developers and owners of qualified housing receive an annual federal tax credit for 10 years, based on the number of housing units provided to low income individuals and families.

In Fiscal Year 1997-98, the Board allocated $1,982,739 in tax credits to assist in the development of fourteen projects containing 480 low income housing units with total projected development costs of $30,152,685. Since the inception of the program in November, 1987, the tax credit has been utilized in the rehabilitation and production of 2,592 low income housing units in 92 separate projects with total construction costs of $138,905,601. This comprises over 50% of multifamily rental housing development in the state.

Low Income Housing Tax Credit Program
Allocations by City
1987 through June 30, 1998

City	Number of Developments	Number of LIHTC Units	LIHTC Allocated	Total Development Costs*
Absorakee	1	32	$ 15,134	$ 755,867
Belgrade	3	72	252,323	3,854,686
Big Timber	1	24	36,186	1,149,013
Big Fork	1	32	46,963	1,488,538
Big Sky	2	48	205,749	2,559,787
Billings	11	437	1,778,928	21,168,579
Bozeman	5	170	1,055,168	11,609,954
Butte	1	36	181,783	2,505,046
Chester	1	6	3,030	275,296
Chinook	1	12	7,156	201,224
Columbia Falls	1	12	17,216	609,960
Cut Bank	1	19	31,659	1,034,474
Deer Lodge	1	24	24,222	698,472
Forsyth	2	36	54,228	1,724,391
Fort Benton	1	10	13,938	355,562
Glasgow	1	6	9,780	298,101
Great Falls	6	294	1,083,018	18,109,015
Hamilton	3	82	296,806	4,467,233
Hardin	2	40	77,324	1,937,806
Havre	7	30	32,660	873,588
Helena	3	90	474,596	5,661,705
Hysham	1	12	28,373	765,857
Joliet	1	1	1,409	35,313
Kalispell	6	197	720,352	10,104,844
Laurel	1	8	9,016	273,198
Livingston	1	24	32,644	937,516
Medicine Lake	1	4	3,595	78,576
Missoula	14	510	2,210,932	30,067,077
Pablo	1	20	128,626	1,586,680
Plains	1	9	11,600	310,923
Polson	2	82	141,854	3,374,116
Redlodge	1	32	178,520	2,135,786
Ronan/St. Ignatius	1	29	42,000	948,045
Scobey	1	11	13,980	612,000
Shelby	1	12	16,960	487,300
Stevensville	1	30	37,178	1,044,900
West Yellowstone	1	53	178,193	2,563,215
Whitefish	1	40	82,227	1,972,480
Winnett	1	6	9,626	269,478
Total	**92**	**2,592**	**$9,544,952**	**$138,905,601**

* Inclusive of estimated costs for developments not yet completed.

Montana Board of Housing
Reverse Annuity Mortgage Loan

PURPOSE: Many senior citizens in Montana own their own homes, and have little or no remaining mortgage debt. Many of these homeowners are persons of lower income who would benefit from an additional income source from the use of equity in their homes. The reverse annuity mortgage loans would enable senior homeowners to provide more substantially for their own in-home support and specialized care.

Mortgage Interest Rate: 5.0%

Age Requirement: All borrowers to be 68 years of age or older. Some exceptions may be considered.

Income Limit: The Borrower's Annual Family Income must not exceed the following:

1 person household	$16,100
2 person household	21,700
3 person household and up	27,300

Property Eligibility: The home must be located in Montana. The borrowers must be the owner and occupant of a single-family dwelling that is unencumbered by any prior mortgage, lien or pledge. A single-family dwelling means a one-to-four-family living unit, excluding a single-wide mobile home. A single-family dwelling must meet minimum FHA property standards as determined by an FHA appraisal.

Loan Amount: The loan amounts range from a minimum of $15,000 to a maximum of $50,000. The maximum loan amount is determined based on 80% of the FHA determined property value.

Payment Terms: The net loan proceeds are advanced monthly to the borrowers based on a ten-year term.

Lump Sum Advances: Lump sum advances are available at loan closing. $2,500 is available for such items as payment of prior mortgages, liens, pledges or for needed repairs to the home. Some exceptions may be considered. An advance is available for certain loan closing costs. Lump sum advances reduce the amount of the monthly loan advance.

Counseling: Potential borrowers must complete a reverse annuity mortgage counseling program in order to submit an application. The counseling network is provided through the Montana Aging Services Network.

Applications: Applications may be obtained by contacting the Montana Board of Housing, 836 Front Street, PO Box 200528, Helena, MT 59620-0528, telephone 444-3040, 1-800-761-6264 or the Office on Aging, PO Box 204001, Helena, MT 59620-4001, telephone 1-800-332-2272. The applications may be completed during the required reverse annuity mortgage counseling.

Reverse Annuity Mortgage Program

Program Statistics

Community	# of Loans	Household Sizes	Borrowers Age	Average Annual Income	Average Loan Amount
Alberton	1	1	77	$ 9,232	$40,000
Ashland	1	1	64	$ 6,168	$20,800
Belgrade	1	1	80	$12,810	$50,000
Billings	3	2, 2, 1	76 to 86	$ 8,791	$42,400
Big Timber	1	1	73	$ 9,288	$47,200
Butte	4	1, 2, 2, 1	72 to 80	$10,620	$36,100
Columbus	1	2	79 & 73	$15,334	$50,000
Dillon	2	2, 1	78 to 81	$ 7,056	$35,520
Great Falls	4	2, 1, 1, 1	70 to 81	$10,014	$42,300
Hamilton	2	1, 2	65 to 74	$11,781	$45,000
Havre	2	1, 2	77 to 80	$14,070	$34,000
Helena	2	1, 2	74 to 77	$13,271	$50,000
Kalispell	4	2, 1, 2, 1	72 to 84	$11,031	$45,750
Laurel	1	2	83 & 84	$11,039	$40,240
Libby	1	2	76 & 86	$14,712	$50,000
Livingston	1	1	81	$ 9,126	$50,000
Malta	1	1	70	$ 5,280	$16,800
Manhatten	1	1	71	$ 8,944	$50,000
Missoula	3	1, 1, 1	70 to 84	$ 7,313	$34,934
Polson	1	1	81	$ 7,696	$40,000
Ryegate	1	1	87	$ 8,034	$44,000
Shelby	1	1	75	$ 9,330	$50,000
Sidney	2	2, 2	67 to 87	$21,214	$37,600
Somers	1	1	71	$ 5,314	$25,000
Stevensville	1	1	72	$11,147	$48,800
Townsend	1	1	85	$10,229	$32,000
Virginia	1	2	69 & 71	$18,101	$50,000

	FY 1997-98	Overall Program
Active Loans	8	33
Prepaid Loans	0	12
Total	8	45
Average Borrower Age	74	76
Average Borrower Income	$12,227	$11,575
Average Loan Amount	$39,530	$41,790

APPENDIX A

MONTANA BOARD OF HOUSING

FINANCIAL REPORT

JUNE 30, 1998

CONTENTS

MONTANA BOARD OF HOUSING
<u>CURRENT STATUS OF PRIOR YEAR RECOMMENDATIONS</u>
June 30, 1998 and 1997

There were no prior year audit recommendations to report on.

CONTENTS

LEGISLATIVE AUDIT DIVISION

Scott A. Seacat, Legislative Auditor
John W. Northey, Legal Counsel
Tori Hunthausen, IT & Operations Manager

Deputy Legislative Auditors:
Jim Pellegrini, Performance Audit
James Gillett, Financial-Compliance Audit

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Montana Board of Housing
Helena, Montana:

We have audited the accompanying Combining Balance Sheet of the Enterprise Fund of the Montana Board of Housing, a component unit of the state of Montana, as of June 30, 1998 and 1997, and the related Combining Statement of Revenues, Expenses and Changes in Retained Earnings and the Combining Statement of Cash Flows for the fiscal years then ended. The information contained in these financial statements is the responsibility of the Board's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We have conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Montana Board of Housing as of June 30, 1998 and 1997, and the results of operations and its cash flows for the fiscal years then ended in conformity with generally accepted accounting principles.

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The Single Family Combining Balance Sheet as of June 30, 1998, and the related Single Family Combining Statement of Revenues, Expenses and Changes in Retained Earnings for the fiscal year then ended, are presented for purposes of additional analysis and are not a required part of the financial statements of the Montana Board of Housing. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.

The other data included in this report were not audited by us, and accordingly, we express no opinion on such data.

Respectfully submitted,

James Gillett

James Gillett, CPA
Deputy Legislative Auditor

September 25, 1998

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MONTANA BOARD OF HOUSING,
ENTERPRISE FUND
COMBINING BALANCE SHEET
June 30, 1998 with comparative combined totals for 1997

	Single Family Mortgage Program funds	Multifamily Mortgage Program Funds	Housing Trust Fund	Combined Totals 1998	Combined Totals 1997 (As Restated) (Note 17)
ASSETS					
Cash and cash equivalents (Note 2)	$ 1,839,428	$ 129,995	$1,381,585	$ 3,351,008	$ 3,165,800
Investments (Note 4)	168,514,492	5,749,460	-	174,263,952	184,797,783
Mortgage Loans receivable (Note 5)	422,676,108	13,831,930	653,879	437,161,917	413,240,571
Interest receivable	4,474,760	128,073	107,886	4,710,719	4,397,211
Deferred bond issuance costs, net	5,641,619	225,168	-	5,866,787	5,978,092
Fixed assets (Note 8)	126,148	2,562	13,800	142,510	117,114
Prepaid expense	33,699	1,413	2,236	37,348	38,445
Accounts Receivable	-	-	-	-	849
Cash Collateral for Securities Lending	36,158	-	73,654	109,812	40,729
Total Assets	$603,342,412	$20,068,601	$2,233,040	$625,644,053	$611,776,594
LIABILITIES AND RETAINED EARNINGS					
Liabilities:					
Accounts payable	$312,773	$3,898	$3,802	$320,473	$301,454
Premium on bonds payable	-	-	-	-	357,100
Cost of issuance payable	86,959	-	-	86,959	139,041
Accrued interest-bonds payable	4,081,867	362,293	-	4,444,160	5,054,245
Bonds payable, net (Note 9)	508,609,967	13,997,083	-	522,607,050	515,916,480
Deferred Refunding Costs (Note 15)	804,680	-		804,680	728,351
Arbitrage tax payable to U.S. Treasury Department (Note 13)	252,034	-	-	252,034	86,263
Accrued compensated absences	29,796	4,113	4,114	38,023	41,119
Collateral for Securities Lending	36,158	-	73,654	109,812	40,729
Total Liabilities	514,214,234	14,367,387	81,570	528,663,191	522,664,782
Retained Earnings:					
Reserved Retained Earnings-Pledged to Bondholders (Note 1 & 11):					
Unrealized gains on investments	3,003,707	446	-	3,004,153	-
Single Family Programs	62,995,423	-	870,691	63,866,114	61,266,913
Various Recycled Mortgage Programs	22,484,048	-	-	22,484,048	21,355,448
Multifamily Programs	-	3,590,767	-	3,590,767	4,001,821
Multifamily Project Commitments	220,000	2,110,001	-	2,330,001	1,297,596
Reverse Annuity Mortgage Program	350,000	-	1,081,181	1,431,181	1,145,564
Cash Assistance Program	75,000	-	199,598	274,598	44,470
Total Retained Earnings	89,128,178	5,701,214	2,151,470	96,980,862	89,111,812
Total Liabilities and Retained Earnings	$603,342,412	$20,068,601	$2,233,040	$625,644,053	$611,776,594

See accompanying notes to financial statements.

MONTANA BOARD OF HOUSING,
ENTERPRISE FUND
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS
June 30, 1998 with comparative combined totals for 1997

	Single Family Mortgage Program funds	Multifamily Mortgage Program Funds	Housing Trust Fund	Combined Totals 1998	Combined Totals 1997 (As Restated) (Note 17)
REVENUES:					
Interest income-mortgage loans	$ 30,797,039	$ 1,083,948	$ 35,328	$31,916,315	$ 29,520,689
Interest income-investments	9,556,682	289,132	66,556	9,912,370	10,058,483
Fee income	32,483	1,735	45,900	80,118	166,170
Net increase (decrease) in fair value of investments	2,853,272	3,213	-	2,856,485	-
Gain on sale of investments	-	-	-	-	164,671
Other income	886	10,820	130	11,836	9,636
Securities Lending Income	1,952	-	2,919	4,871	5,970
Total revenues	$ 43,242,314	$1,388,848	$150,833	$ 44,781,995	$ 39,925,619
EXPENSES:					
Interest on bonds	$ 32,313,747	$ 872,655	$ -	$ 33,186,402	$ 31,840,583
Servicer fees	1,584,942	17,716	-	1,602,658	1,434,689
Amortization of bond issuance costs	366,553	13,017	-	379,570	486,603
General and administrative	1,033,358	76,812	65,543	1,175,713	1,149,228
Securities Lending Expense	1,904	-	2,847	4,751	5,649
Arbitrage rebate tax (Note 13)	92,868	-	-	92,868	48,284
Loss on redemption (Note 10)	440,871	-	-	440,871	439,637
Total Expenses	35,834,243	980,200	68,390	36,882,833	35,404,673
Net operating income before operating transfers	7,408,071	408,648	82,443	7,899,162	4,520,946
Nonoperating expenses					
Loss on disposal of fixed assets	(30,799)	(3,440)	(4,589)	(38,828)	-
Operating Transfers in	-	-	150,000	150,000	70,000
Operating Transfers out	(150,000)	-	-	(150,000)	(70,000)
Net income	7,227,272	405,208	227,854	7,860,334	4,520,946
Retained Earnings, beginning of year:					
Reserved Retained Earnings-Pledged to Bondholders	81,888,779	5,299,417	1,923,616	89,111,812	84,590,866
Prior Period Adjustments (Note 18)	12,127	(3,411)	-	8,716	-
Retained Earnings, end of year:					
Reserved Retained Earnings-Pledged to bondholders	$ 89,128,178	$ 5,701,214	$ 2,151,470	$ 96,980,862	$ 89,111,812

See accompanying notes to financial statements.

MONTANA BOARD OF HOUSING,
ENTERPRISE FUND
COMBINING STATEMENT OF CASH FLOWS
June 30, 1998 with comparative combined totals for 1997

	Single Family Mortgage Program funds	Multifamily Mortgage Program Funds	Housing Trust Fund	Combined Totals 1998	Combined Totals 1997 (As Restated) (Notes 17 & 4)
CASH FLOWS FROM OPERATING ACTIVITY					
Receipts for Sales and Services	$ -	$ -	$45,900	$45,900	$ 83,089
Collections on Loans And Interest on Loans	87,249,359	2,340,852	75,715	89,665,926	72,841,143
Cash payments for Loans	(81,272,988)	(388,036)	(199,340)	(81,860,364)	(101,672,380)
Payments to Suppliers for Goods and Services	(2,168,994)	(63,433)	(28,719)	(2,261,146)	(2,125,683)
Payments to employees	(400,526)	(32,213)	(32,839)	(465,578)	(408,516)
Other Operating Revenues	886	10,820	130	11,836	174,307
Net Cash Provided (Used) for Operating Activities	3,407,737	1,867,990	(139,153)	5,136,574	(31,108,040)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:					
Payment of Principal and Interest on Bonds and Notes	(77,693,547)	(1,138,156)	-	(78,831,703)	(111,917,582)
Proceeds from Issuance of Bonds and Notes	51,780,000	-	-	51,780,000	157,250,000
Payment of Bond Issuance Costs	(687,110)	-	-	(687,110)	(1,760,184)
Premium Paid on Refunding Bonds	(409,100)	-	-	(409,100)	-
Deferred Gain on Refunding Bonds	-	-	-	-	796,913
Transfers in (out)	(150,000)	-	150,000	-	-
Net Cash Provided (Used for) Noncapital Financing Activities	(27,159,757)	(1,138,156)	150,000	(28,147,913)	44,369,147
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:					
Acquisition of Fixed Assets	(98,000)	-	-	(98,000)	(34,048)
Net Cash Used for Capital and Related Financing Activities	(98,000)	-	-	(98,000)	(34,048)
CASH FLOWS FROM INVESTING ACTIVITIES:					
Purchase of Investments	(540,961,871)	(11,907,442)	-	(552,869,313)	(583,379,159)
Proceeds from Sales or Maturities of Investments	555,485,510	10,921,787	-	566,407,297	559,172,448
Interest on Investments	9,399,229	290,706	66,628	9,756,563	9,630,853
Net Cash Provided by (Used for) Investing Activities	23,922,868	(694,949)	66,628	23,294,547	(14,575,858)
Net Increase (Decrease) in Cash And Cash Equivalents	72,848	34,885	77,475	185,208	(1,348,799)
Cash and Cash Equivalents, beginning bal.	1,766,580	95,110	1,304,110	3,165,800	4,514,599
Cash and Cash Equivalents, ending bal.	$1,839,428	$129,995	$ 1,381,585	$3,351,008	$3,165,800

See accompanying notes to financial statements.

MONTANA BOARD OF HOUSING,
ENTERPRISE FUND
COMBINING STATEMENT OF CASH FLOWS
June 30, 1998 with comparative combined totals for 1997

	Single Family Mortgage Program funds	Multifamily Mortgage Program Funds	Housing Trust Fund	Combined Totals 1998	Combined Totals 1997 (As Restated) (Notes 17 & 4)
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES					
Operating Income	$ 7,408,071	$ 408,648	$ 82,443	$ 7,899,162	$4,520,946
ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES:					
Depreciation	28,009	557	5,209	33,775	30,394
Amortization	807,424	13,017	-	820,441	926,240
Interest Expense	32,313,747	872,655	-	33,186,402	31,840,583
Interest on Investments	(9,556,730)	(289,132)	(66,628)	(9,912,490)	(10,058,804)
Arbitrage Rebate Tax	92,868	-	-	92,868	48,286
Incr. in fair value of investments	(2,853,272)	(3,213)	-	(2,856,485)	-
Change in Assets and Liabilities:					
Decr (Incr) in accounts receivable	849	-	-	849	1,102
Decr (Incr) in Mortgage Loans Receivable	(24,770,930)	876,673	(130,697)	(24,024,954)	(58,116,445)
Decr (Incr) in other assets	(184,581)	(9,530)	(28,414)	(222,525)	(361,207)
Incr (Decr) in Accounts Payable	24,807	(2,664)	(3,124)	19,019	26,220
Incr (Decr) in Deferred Revenue	104,121	(513)	-	103,608	30,197
Incr (Decr) in Compensated Absences Payable	(6,646)	1,492	2,058	(3,096)	4,448
Net Cash Provided by (Used for) Operating Activities	$3,407,737	$1,867,990	$(139,153)	$5,136,574	$(31,108,040)

See accompanying notes to financial statements.

MONTANA BOARD OF HOUSING
ENTERPRISE FUND
NOTES TO THE FINANCIAL STATEMENTS
June 30, 1998 and 1997

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization:

The Montana Board of Housing (the Board) is a quasi-judicial board created in 1975, by the Legislative Assembly of the State of Montana to facilitate the availability of decent, safe, and sanitary housing to persons and families of lower income as determined in accordance with the Board policy in compliance with the Internal Revenue Code. The Board is authorized to issue negotiable notes and bonds to fulfill its purposes. The total amount of notes and bonds outstanding at any time may not exceed $975,000,000. The discount price of bonds sold, not the face amount of the bonds, counts against this statutory ceiling. Neither the faith and credit nor taxing power of the State of Montana may be pledged for payment of amounts so issued. The Board of Housing is attached to the Housing Division, Department of Commerce.

Basis of Presentation:

The financial statements of the Board have been prepared in conformity with generally accepted accounting principles whereby revenues are recognized when earned and expenses are recognized when incurred. The financial activities of the Board are recorded in funds established under various bond resolutions. In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and revenues and expenses for the period.

Reporting Entity:

In accordance with governmental accounting and financial reporting standards, there are no component units to be included within the Board of Housing as a reporting entity. The financial statements of the Board of Housing are presented as a component unit in the State of Montana's General Purpose Financial Statements. The enterprise fund of the Board of Housing is part of but does not comprise the entire proprietary fund type of the State of Montana. The State of Montana directs and supervises budgeting, record keeping, reporting, and related administrative functions of the Board.

Fund Accounting:

To ensure observance of limitations and restrictions placed on the use of resources by the trust indentures, the Board of Housing accounts are organized in accordance with the principles of fund accounting. This is the procedure by which resources are classified for accounting and reporting purposes into funds established according to their nature and purpose as described in the trust indentures. The operations of each fund are accounted for by providing a separate set of self balancing accounts which are comprised of each fund's assets, liabilities, retained earnings, revenues, and expenses. The Board is classified as an enterprise fund, that is, a fund that is financed and operated in a manner similar to private business enterprises, where the intent of the Board is that the expenses of meeting its organizational purpose be financed or recovered primarily through user charges and investment earnings, and the periodic determination of revenue earned and expenses incurred is appropriate for capital maintenance, public policy, management control, accountability, and other purposes. Reserved Retained Earnings (pledged to bondholders) represent bond program funds that are required to be used for program purposes as prescribed by individual bond indentures. The following describes the restrictions on the Reserved Retained Earnings: The individual bond indentures establish certain funds and accounts as special trust funds to hold the individual indenture funds. Because of the nature of the Board's bonds, these funds and accounts are pledged as collateral for the bonds under the individual program indentures. The individual indentures also set certain reserve requirements on cash and investments. These reserves are disclosed in Note 4 to the financial statements. Also, as disclosed in Note 5 to the financial statements, the mortgage loans receivable are pledged as security for holders of the bonds. Certain indentures also require asset-liability coverage ratios be met as well as cash flow certificates be furnished for any significant change anticipated in the financial structure of an indenture.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Fund Accounting - continued

Reserved Retained Earnings also include reserved and committed funds for various programs established by the Board.

Fund Structure:

Single Family Mortgage Program Funds - these funds, established under ten separate trust indentures adopted on various dates, are established for accounting for the proceeds from the sale of Single Family Mortgage Bonds and the debt service requirements of the bond indebtedness. Activities of these funds are, in general, restricted to the purchase of eligible single family mortgage loans. The mortgage loans must be insured by the Federal Housing Administration or guaranteed by Veterans Administration or Rural Development (RD).

The accompanying combining financial statements present the Single Family Mortgage Program Funds in one column. The assets of each individual Single Family Mortgage Program Fund are restricted by the Fund's respective trust indenture; therefore, the total does not indicate that the Single Family Mortgage Program Funds' assets are available in any manner other than provided for in the individual trust indentures. The Board has reserved funds for specific loan programs. These loans will be originated from funds available in the Single Family I and II Indenture.

Multifamily Mortgage Program Funds - These funds, established under a trust indenture adopted February 23, 1978, as amended and restated as of December 29, 1992, are established for accounting for the proceeds from the sale of Multifamily Mortgage Bonds, the debt service requirements of the bond indebtedness, and for construction and permanent mortgage loans on multifamily developments being financed from the bond proceeds. Mortgage loans originated prior to December 1992, must be insured by the Federal Housing Administration.

Housing Trust Fund - the Housing Trust Fund was established as a separate trust fund by a resolution of the Montana Board of Housing, adopted February 16, 1989. The Housing Trust Fund was created to finance in whole or in part future housing needs and the establishment of new programs as deemed necessary by the Board and any loans or projects that will provide housing for lower income persons and families with special housing needs. Current programs include, but are not limited to, the Reverse Annuity Mortgage Program (RAM) for senior Montana homeowners and the Home Buyers Cash Assistance Program (CAP) to assist lower income individuals and families in the purchase of a single family home. The Housing Trust Fund also includes all activity from the Low Income Housing Tax Credit Program.

Cash and Cash Equivalents:

For the purposes of the combining statement of cash flows, cash and cash equivalents consist of cash held by the State of Montana Treasurer, cash held by trustees, and cash invested in the state's short term investment pool.

Investments:

Investment of the Board's monies is made in accordance with the Board's investment policy, dated January 9, 1996 (reviewed January 1997 & 1998), which is in compliance with the trust indentures and the laws of the State of Montana.

Permitted investments are U.S. treasury obligations, U.S. agency obligations, debentures, or notes,

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Investments - continued:

certificates of deposits or time deposits, insured by the FDIC or fully insured by U.S. treasury or agency obligations which have a market value at least equal to the amount of such deposits, and investment contracts fully collateralized in an amount equal to 102% of the principal and interest of the agreement.

In no case shall an investment result in a reduction of ratings by Standard & Poor's Rating Services or Moody's Investor Services.

From 1988 to 1992 the Board invested in guaranteed investment contracts that had underlying collateral equal to 100% of the principal and interest of the agreements.

Investments, which are generally intended to be held to maturity, are reported at "fair value" , as required by GASB 31.

Mortgage Loans Receivable:

Mortgage loans receivable are carried at their uncollected principal balances, adjusted for unamortized mortgage discounts and deferred loan fees, less an allowance for loan losses. Mortgage discounts and loan fees earned after 1988 are amortized using the interest method over the life of the mortgage loans and are accreted to interest income on mortgages. Mortgage discounts for all other program funds are amortized using the straight-line method over the remaining life of the mortgage loans and accreted to interest income.

The Board purchases mortgage loans secured by residences located throughout the State of Montana. Loans must be insured by the FHA (Federal Housing Administration) or guaranteed by the VA (Veterans Administration) or RD (Rural Development). Guidelines to minimize credit risk are established by FHA, VA, RD and Board policies.

Interest receivable is accrued on the amount of outstanding mortgage loan principal only if deemed collectible. Accrual on non-performing loans ceases at six months.

Estimated losses are determined based on management's judgement, giving effect to numerous factors including, but not necessarily limited to, general economic conditions, loan portfolio composition, prior loss experience and independent appraisals. The reserve for anticipated loan losses represents amounts which are not expected to be fully reimbursed by certain guarantors.

The Board incurs mortgage loan service fees with participating loan servicers based on outstanding monthly mortgage loan principal balances. The service fees are paid only when the mortgagee's full monthly payment is collected.

Fixed Assets:

Fixed assets are recorded at cost and depreciation is computed using the straight-line method over estimated useful lives of 5 to 10 years. The majority of fixed assets consists of computers and software.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Bonds Payable:
Bonds payable is adjusted for amortized bond premiums and discounts. Bond premiums and discounts are amortized or accreted to interest expenses using the interest method, as an adjustment to yield, over the life of the bonds to which they relate or are expensed upon early redemption of the bonds.

Bond issuance costs, including underwriter discounts, are amortized using the bonds outstanding method over the life of the bonds or are expensed upon redemption of the bonds.

Compensated Absences:
The Boards' employees earn vacation leave ranging from 15 to 24 days per year depending on the employee's years of service. Vacation leave may be accumulated to a total not to exceed two times the maximum number of days earned annually. Sick leave is earned at the rate of 12 days per year with no limit on accumulation. Upon retirement or termination, an employee is paid for 100% of unused vacation leave and 25% of unused sick leave.

NOTE 2. CASH AND CASH EQUIVALENTS

As disclosed in note 4, the Board's investments are categorized to give an indication of the level of risk assumed by the Board. These same risk categories are used below for cash and cash equivalents. All cash held by trustees and cash balances maintained by the State of Montana Treasury and held in the State's Short Term Investment Pool were covered by federal depository insurance or collateralized by securities held by third parties in the Board's name. At June 30, 1998 and 1997, the carrying amounts of the Board's cash and cash equivalents equaled the bank balances.

	Category			Totals	
Fund	1	2	3	1998	1997
Program Funds*	$ 3,083,243	$ -	$ -	$3,083,243	$3,072,412
Deposited with State Treasury	267,765	-	-	267,765	93,388
	$ 3,351,008	$ -	$ -	$3,351,008	$ 3,165,800

*Cash deposits are held at the trustee bank. Based on the opinion of the Board's bond counsel, these funds are insured by the FDIC on a pass-through basis to the owners of mortgage bonds. Thus, each individual bondholder is entitled to $100,000 of insurance coverage.

The units held in the State's Short Term Investment Pool (STIP) are valued at $1 per unit. The market value of STIP is equal to the cost. STIP securities include Banker's Acceptances, Commercial Paper, Corporate Obligations, Montana Certificates of Deposit, Government Securities, and Repurchase Agreements.

NOTE 3. SECURITIES LENDING

The Board of Housing invests in the State's Short-Term Investment Pool. As part of the pool, administered by the Board of Investments the Board participates in securities lending transactions. Under GASB 28, the following disclosures are required:

Under the provisions of state statutes, the Board of Investments (BOI) has, via, a Securities Lending Authorization Agreement authorized a custodial bank, State Street Bank and Trust, to lend the BOI's securities to broker-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. During the period the securities are on loan, BOI receives a fee and the custodial bank must initially receive collateral equal to 102% of the market value of the loaned securities and maintain collateral equal to not less than 100% of the market value of the loaned security. BOI retains all rights and risks of ownership during the loan period.

During fiscal years 1998 and 1997, State Street lent, on behalf of BOI, certain securities held by State Street, as custodian, and received US dollar currency cash, US government securities, and irrevocable bank letters of credit. State Street does not have the ability to pledge or sell collateral securities unless the borrower defaults.

BOI did not impose any restrictions during fiscal year 1998 and 1997 on the amount of loans that State Street made on its behalf. There were no failures by any borrowers to return loaned securities or pay distributions thereon during fiscal years 1998 and 1997. More over, there were no losses during fiscal years 1998 and 1997 resulting from a default of the borrowers or State Street. During fiscal years 1998 and 1997, BOI and the borrowers maintained the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested, together with the cash collateral of other qualified plan lenders, in a collective investment pool, the Securities Lending Quality Trust. The relationship between the average maturities of the investment pool and BOI's loans was affected by the maturities of the loans made by other plan entities that invested cash collateral in the collective investment pool, which BOI could not determine. On June 30, 1998 and June 30, 1997, BOI had no credit risk exposure to borrowers.

NOTE 4. INVESTMENTS

The Board's investments are categorized below to give an indication of the level of risk assumed by the Board. Category 1 includes investments which are insured, registered, or held by the Board or its agent in the Board's name. Category 2 includes uninsured and unregistered investments that are held by the counter party's trust department or agent in the Board's name. Category 3 includes uninsured and unregistered investments that are held by the Counterpart, or by its trust department or agent but not in the Board's name. The Board's investments at June 30, 1998 and 1997 consisted of Category 2 investments:

	1998		1997*	
	Reported Amount	Fair Value	Reported Amount	Fair Value
U.S. Treasury	$28,063,359	$28,063,359	$27,920,990	$28,453,061
U.S. Agency	$50,911,947	50,935,165	46,007,350	$46,465,000
Repurchase agreements and Investment Contracts--Collateralized	95,288,646	95,288,646	110,869,443	110,869,443
Total	$ 174,263,952	$174,287,170	$184,797,783	$185,787,504

*Fiscal year 1997 reported investments were not restated to show the effects of GASB 31. A prior period adjustment was made to fund balance. (See note 18)

NOTE 4. INVESTMENTS-Continued

All repurchase agreements and investment contracts were fully collateralized with securities and cash held by the provider's agent and confirmed by the trustee as required by the bond indentures. Securities underlying the repurchase agreements have a market value of at least 102% of the cost of repurchase agreement. Securities underlying the investment contracts have a market value of at least 100% of the cost of the investment contract plus accrued interest.

Under GASB 31, certain investments are to be reported at fair value. The Board values all of its investments that have a maturity date of over one year at fair value. Those investments that have a maturity date of less than one year are valued at amortized cost. The fair values were based on market prices provided by the Board's trustee.

Portions of cash and investments, valued at amortized cost, are restricted to uses specified by applicable bond indentures. Amounts are restricted as follows:

	1998		1997	
	Single family Mortgage Program Funds	Multifamily Mortgage Program funds	Single family Mortgage Program funds	Multifamily Mortgage Program Funds
Funds				
Debt service reserve	$44,232,155	$873,399	$47,218,140	$897,792
Mortgage reserve	$3,852,818	$216,434	$3,374,760	$266,637
Total	$48,084,973	$1,089,833	$50,592,900	$1,164,429

As of June 30, 1998 original bond proceeds of $60,933,420.11 was still on deposit in the 1997A & 1998A program acquisition funds to be used for the purchase of Single Family Mortgage loans.

As of June 30, 1998 there was $26,298,618 in reservations outstanding in the 1997A and 1998A bond issues. The Board also had $15,000,000 remaining, in 1998A, which will be used for special set aside programs. There was also approximately $15,600,000 remaining in the 1997A issue. The money in the 1997A issue was, substantially, committed to the purchase of Single Family loans after June 30.

NOTE 5. MORTGAGE LOANS RECEIVABLE

The mortgage loans receivable are pledged in accordance with individual program indentures as security for holders of the bonds. Mortgage loans receivable consist of the following:

	1998	1997
Mortgage loan receivables:		
Single Family Program	$427,457,798	$402,686,868
Multifamily program	13,909,264	14,785,936
Housing Trust Program	653,879	523,183
	442,020,941	417,995,987
Net mortgage discounts and deferred reservation fees	(4,809,024)	(4,705,416)
Allowance for loan losses and real estate owned	(50,000)	(50,000)
	$437,161,917	$413,240,571

NOTE 6. ALLOWANCE FOR LOAN LOSSES AND REAL ESTATE OWNED

The following summarizes activity in the allowance for loan losses and real estate owned:

Balance, June 30, 1996	$50,000
Provision	10,433
Less: Net loans charged off	(10,433)
Balance, June 30, 1997	50,000
Provision	10,751
Less: Net loans charged off	(10,751)
Balance, June 30, 1998	$ 50,000

The allowance for loan losses includes $30,000 at June 30, 1998 and $30,000 at June 30, 1997 for future estimated losses on real estate owned. Real estate owned property is property that is acquired through foreclosure or in satisfaction of loans and is initially recorded at the lower of the related loan balance, less any specific allowance for loss, or fair market value minus estimated costs to sell. The Board held one real estate owned property during 1998 and none during 1997.

NOTE 7. MULTIFAMILY ESCROW AND RESERVE DEPOSITS HELD IN TRUST

For the years ended June 30, 1998 and 1997 escrow and reserve deposits for certain Multifamily mortgages were held in trust for the mortgagor for insurance, real estate taxes and a reserve for replacement under the terms of certain Regulatory Agreements between the Board and the mortgagors. The escrows amounted to $463,724 and $395,956 at June 30, 1998 and 1997 respectively. The escrows are invested with the earnings credited to the mortgagor of the project, not the Board. The escrow and related liabilities are not reflected in the accompanying combining balance sheet.

NOTE 8. FIXED ASSETS

Fixed assets consist primarily of computer hardware, peripherals, software and other office equipment. Balances are as follows:

	1998	1997
Furniture, fixtures, and equipment at cost	$249,910	$293,202
Accumulated depreciation	(107,400)	(176,088)
Net fixed assets	$ 142,510	$ 117,114

Depreciation expense included in general and administrative expense was $33,775 and $30,394 for the years ended June 30, 1998 and 1997 respectively.

NOTE 9. BONDS PAYABLE, NET

Bonds payable, net of premium or discount, consists of the following:

	Original Amount	1998	1997
Single Family I Mortgage Bonds:			
1997			
Series A-1 and A-2 serial and term bonds 4.00% to 6.15% maturing in scheduled semi-annual installments commencing June 1, 1998 to December 1, 2011, and on December 1, 2016, December 1, 2017, December 1, 2027, December 1, 2029 December 1, 2030 and December 1, 2037	91,360,000	91,295,000	91,360,000
Single Family II Mortgage Bonds:			
1983 -			
Series C, serial, term and Capital Appreciation Bonds (CAB), 5.75% to 10.7% interest. Serial and term bonds, refunded April 15, 1994. CABS are reported at accreted value, and are scheduled for redemption, in part, in semi-annual installments commencing June 1, 2003 to June 1, 2010.	114,998,229	18,271,777	17,933,628
1984 -			
Series A, serial, term and CABS, 7.0% to 10.375% interest. Serial and term bonds refunded August 1, 1994. CABS are reported at accreted value, and are scheduled for redemption, in part, in annual installments commencing June 1, 2005 to June 1, 2010.	75,002,290	1,200,675	3,270,516

NOTE 9. BONDS PAYABLE, NET - continued

	Original Amount	1998	1997
1985 - Series A, serial, term, CAB and Postponed Revenue on Future Income Tax - Exempt Securities (PROFITS), CABS are reported at accreted value, and scheduled for redemption, in part, in semi-annual installments commencing June 1, 1999 to December 1, 2004 and December 1, 2015 to June 1, 2016; PROFITS are reported at accreted value, and begin to pay interest semi-annually, scheduled for redemption, in part, in semi-annual installments commencing December 1, 2010 to June 1, 2013.	$ 39,999,625	7,937,515	$ 10,473,037
1985 - Series B, term bonds maturing in scheduled semi-annual installments commencing June 1, 2006 to June 1, 2011.	74,996,862	3,250,000	3,590,000
1992 - Series RA, serial and term, 5.65% to 6.5% interest, serial and term bonds maturing in scheduled semi-annual installments commencing June 1, 2003 to December 1, 2007, and on December 1, 2012, December 1, 2022, and December 1, 2032.	22,520,000	22,520,000	22,520,000
1994 - Series A-1 and A-2, serial and term bonds, 3.1% to 6.1% interest, serial and term bonds maturing in scheduled semi-annual installments to December 1, 2002, and on June 1, 2015 and December 1, 2024.	25,725,000	17,810,000	19,795,000
Series B-1 and B-2, serial and term bonds, 3.8% to 6.9% interest, serial and term bonds maturing in scheduled semi-annual installments to December 1, 2002, and on June 1, 2008, December 1, 2014 and June 1, 2025.	40,815,000	24,735,000	30,190,000
Series C-1 and C-2, serial and term bonds 4.5% to 6.8% interest, serial and term bonds maturing in scheduled semi-annual installments commencing December 1, 1996 to December 1, 2008 and on December 1, 2016, June 1, 2020, and December 1, 2026.	20,000,000	9,185,000	18,810,000

MONTANA BOARD OF HOUSING
ENTERPRISE FUND
NOTES TO THE FINANCIAL STATEMENTS(continued)
June 30, 1998 and 1997

NOTE 9. BONDS PAYABLE, NET - continued

	Original Amount	1998	1997
1995 -			
Series A-1 and A-2 serial and term bonds 4.75% to 6.55% maturing in scheduled semi-annual installments commencing December 1, 1997 to December 1, 2009, and on December 1, 2012, December 1, 2017, December 1, 2025, and June 1, 2027.	$ 33,580,000	26,470,000	$ 32,040,000
Series B-1 and B-2 serial and term bonds 4.20% to 6.40% maturing in scheduled semi-annual installments commencing June 1, 1998 to December 1, 2008, June 1, 2006 to December 1, 2008 and on December 1, 2014, December 1, 2021, December 1, 2027, and June 1, 2035.	$ 88,000,000	86,535,000	88,000,000
1996-			
Series A-1 and A-2 serial and term bonds 4.70% to 6.375% maturing in scheduled semi-annual installments commencing June 1, 1999 to December 1, 2009, and on December 1, 2012, December 1, 2016, December 1, 2024, and June 1, 2028.	$ 65,000,000	64,265,000	65,000,000
1998			
Series A-1 and A-2 serial and term bonds 4.00% to 5.45% maturing in scheduled semi-annual installments commencing June 1, 2001 to December 1, 2012, and on December 1, 2016, June 1, 2019, June 1, 2027, June 1, 2030 and June 1, 2031.	$ 51,780,000	51,780,000	0
Total bonds outstanding Single Family II		333,959,967	311,622,181
Single Family III Mortgage Bonds:			
1988 -			
Series B-1 and B-2, serial and term senior bonds and subordinate bonds, 6.2% to 8.9% interest, maturing in scheduled semi-annual installments to October 1, 2008, and on October 1, 2014 and October 1, 2020.			
Senior Bonds	$24,000,000	6,750,000	$8,485,000
Subordinate Bonds	1,000,000	180,000	305,000

NOTE 9. BONDS PAYABLE, NET - continued

	Original Amount	1998	1997
Single Family IV Mortgage Bonds:			
1989 -			
Series A-1 and A-2, serial and term senior bonds and subordinate bonds, 7% to 9.2% interest, maturing in scheduled semi-annual installments to October 1, 2004, and on October 1, 2009, October 1, 2018 and October 1, 2020.			
Senior Bonds	24,000,000	7,565,000	9,130,000
Subordinate Bonds	1,000,000	215,000	325,000
Single Family V Mortgage Bonds:			
1990 -			
Series A-1 and A-2, serial and term senior bonds and subordinate bonds, 6.2% to 8.525% interest, maturing in scheduled semi-annual installments to October 1, 2005, and on October 1, 2010, October 1, 2016, October 1, 2017 and October 1, 2021.			
Senior Bonds	24,000,000	8,760,000	10,475,000
Subordinate Bonds	1,000,000	320,000	455,000
Single Family VI Mortgage Bonds:			
1990 -			
Series B-1 and B-2, serial and term bonds and subordinate bonds, 6.3% to 8.5% interest, maturing in scheduled semi-annual installments to October 1, 2005, and on October 1, 2010, October 1, 2016, October 1, 2017, and April 1, 2022.			
Senior Bonds	$24,000,000	9,760,000	$11,295,000
Subordinate Bonds	1,000,000	355,000	495,000
Single Family VII Mortgage Bonds:			
1990 -			
Series C-1 and C-2, serial and term bonds and subordinate bonds, 6.55% to 8.95% interest, maturing in semi-annual installments to October 1, 2004, and on October 1, 2010, October 1, 2017, October 1, 2021, and April 1, 2022.			
Senior Bonds	24,000,000	9,130,000	10,850,000
Subordinate Bonds	1,000,000	370,000	520,000

NOTE 9. BONDS PAYABLE, NET - continued

Single Family VIII Mortgage Bonds:			
1991 -			
Series A-1 and A-2, serial and term bonds and subordinate bonds, 5.2% to 8.275% interest, maturing in semi-annual installments to October 1, 2006, and on October 1, 2017, October 1, 2019, and October 1, 2022.			
Senior Bonds	24,000,000	11,655,000	13,875,000
Subordinate Bonds	1,000,000	475,000	610,000
Single Family IX Mortgage Bonds:			
1991 -			
Series B-1 and B-2, serial and term bonds and subordinate bonds, 5.50% to 8.4% interest, maturing in semi-annual installments to October 1, 2004, and on October 1, 2006, October 1, 2017, October 1, 2022 and April 1, 2023.			
Senior Bonds	24,000,000	12,365,000	14,480,000
Subordinate Bonds	1,000,000	510,000	630,000
Single Family X Mortgage Bonds:			
1992 -			
Series A-1 and A-2, serial and term bonds and subordinate bonds, 4.45% to 7.85% interest, maturing in scheduled semi-annual installments to October 1, 2006, and on October 1, 2016, October 1, 2022 and October 1, 2023.			
Senior Bonds	$24,000,000	14,330,000	$16,060,000
Subordinate Bonds	1,000,000	615,000	685,000
Total Single Family Mortgage bonds payable, net		508,609,967	501,657,181

All single family mortgage bonds are subject to mandatory sinking fund requirements of scheduled amounts commencing at various dates and to optional redemption at various dates at prices ranging from 100% to 103%.

Single Family III through X mortgage senior bonds are special obligation bonds of the Board of Housing whereas subordinate bonds are general obligation bonds of the Board of Housing.

Single Family I and II mortgage series bonds are general obligation bonds of the Board of Housing within the individual bond indenture.

NOTE 9. BONDS PAYABLE, NET - continued

	Original Amount	1998	1997
Multifamily Mortgage Bonds:			
1978 -			
Series A, 6.125% interest, maturing in scheduled annual installments to August 1, 2019.	$4,865,000	4,105,000	$4,180,000
1992 -			
Series A, 2.95% to 6.55% interest, serial and term Bonds, maturing in scheduled semi-annual installments to August 1, 2006, and on August 1, 2012, and August 1, 2023.	9,725,000	8,970,000	9,140,000
1996			
Series A, 4.10% to 6.15% interest, serial and term Bonds, maturing in scheduled annual installments to August 1 2001, and on August 1, 2016, and August 1, 2026.	890,000	875,000	890,000
Total bonds outstanding		13,950,000	14,210,000
Unamortized bond premiums		47,083	49,299
Total Multifamily Mortgage bonds payable, net		13,997,083	14,259,299
Combined total bonds payable, net		$522,607,050	$515,916,480

All multifamily bonds are subject to mandatory sinking fund requirements of scheduled amounts commencing at various dates and to optional redemption after various dates at prices ranging from 100% to 105%.

The following is a primary summary of bond principal and interest requirements as of June 30, 1998:

Year Ending June 30:	Single Family Mortgage Program Funds	Multifamily Mortgage Program Funds	Principal Totals	Interest Totals
1999	$38,533,564	$1,134,695	$ 8,377,240	$31,291,019
2000	38,823,895	1,135,162	9,495,034	30,464,023
2001	39,676,108	1,139,254	10,709,476	30,105,886
2002	39,847,031	1,137,015	11,312,251	29,671,795
2003	42,453,925	1,133,601	13,197,643	30,389,883
Thereafter	926,748,380	21,433,641	469,468,323	478,713,698
Total	$1,126,082,903	$27,113,368	$522,559,967	$630,636,304

Cash paid for interest expenses during the years ending June 30, 1998 and 1997 was $30,886,406 and $27,893,647.

NOTE 10. LOSS ON REDEMPTION

During the years ended June 30, 1998 and 1997 the Board redeemed Single Family mortgage program bonds prior to scheduled maturity as follows:

	1998	1997
Single Family I		
August 1	-	$8,917,766
October 1	-	1,830,000
December 1	-	375,000
April 1	-	2,950,000
May 1	-	2,975,000
	-	17,047,766
Single Family II		
October 1	$10,165,759	-
December 1	7,939,499	$9,370,617
April 1	-	-
June 1	9,437,040	2,495,555
	27,542,298	11,866,172
Single Family III		
October 1	$1,030,000	$1,205,000
April 1	615,000	525,000
	1,645,000	1,730,000
Single Family IV		
October 1	$645,000	$840,000
April 1	875,000	615,000
	1,520,000	1,455,000
Single Family V		
October 1	$840,000	$885,000
April 1	745,000	585,000
	1,585,000	1,470,000

NOTE 10. LOSS ON REDEMPTION - continued

	1998	1997
Single Family VI		
October 1	$600,000	$1,005,000
April 1	820,000	1,105,000
	1,420,000	2,110,000
Single Family VII		
October 1	$685,000	$1,340,000
April 1	945,000	720,000
	1,630,000	2,060,000
Single Family VIII		
October 1	$1,075,000	$1,030,000
April 1	940,000	800,000
	2,015,000	1,830,000
Single Family IX		
October 1	$820,000	$715,000
April 1	1,100,000	590,000
	1,920,000	1,305,000
Single Family X		
October 1	$680,000	$770,000
April 1	795,000	525,000
	1,475,000	1,295,000
Total	$40,752,298	$42,168,938

All such Bonds were redeemed at par or 100% of their compounded value to date of redemption. Unamortized discounts and cost of issuance associated with the bonds redeemed were expended at time of redemption and are reported as losses on redemption of $440,871 and $439,637 in 1998 and 1997 respectively.

NOTE 11. COMMITMENTS AND CONTINGENCIES

The Board has reserved and is in the process of purchasing Single Family Mortgages of approximately $4,360,048 from the issuance of the 1997 Series A Bonds and $22,048,570 from the issuance of the 1998A bonds.

The Board has committed to purchase Single Family Mortgages as noted below:

HUD Section 184-Indian Housing	$690,922
Glacier Affordable Housing Program	2,651,152
City of Billings (203k)	329,576
Butte-Silverbow	1,680,000
District IX Human Resources	1,447,630
City of Kalispell	2,431,391
Neighborhood Housing Services	3,423,638
Ronan Housing Authority	544,275
Habitat for Humanity	672,812
Cash Assistance Program	1,621,482
Richland County	152,230
City of Billings-First Time Homebuyers	2,000,000
City of Lewistown	1,000,000
Missoula Housing Corp	1,402,000

NOTE 11. COMMITMENTS AND CONTINGENCIES-continued

First Time Homebuyers Savings Account	1,000,000
Disabled Affordable Accessible Homeownerhip Program	1,436,940
Total Single Family commitments	22,484,048

Other Commitments--Single Family I	
Samaritan House	220,000
Reverse Annuity Mortgage Program	350,000
Cash Assistance Program	75,000
	645,000

The Board has committed to purchase Multifamily Mortgages as noted below:

Financing Adjustment Factor Subsidy Setaside (restricted by agreement with HUD)	157,157
Superior Senior Housing	128,000
Pond Row Apartments	567,500
Clarkfork Manor	1,032,344
Parkside Apartments	225,000
Total Multifamily commitments	$2,110,001

The Board has committed Housing Trust Funds as noted below:

Home buyers Cash Assistance Program-Disabled	$32,932
Cash Assistance Program-VI	166,666
Reverse Annuity Mortgage Program	1,081,181
Total Housing Trust Fund commitments	1,280,779

These mortgage commitments will be funded through cash and investments.

During the ordinary course of business, the Board incurs expenses under various cancelable leases for rental of equipment and maintenance contracts.

NOTE 12. EMPLOYEE BENEFIT PLANS

The Board of Housing participates in the Public Employees' Retirement System plan. The plan is a state-wide, cost-sharing multiple employer defined benefit retirement plan which covers all employees. Part-time employees have an option to belong to the retirement plan, depending upon hours worked. The plan is established under State law and is administered by the State of Montana. The plan provides retirement, disability and death benefits to plan members and beneficiaries.

The plan issues publicly available annual reports that include financial statements and required supplemental information for the plans. Those reports may be obtained from the following:

Public Employees Retirement Division
P.O. Box 200131
1712 Ninth Avenue
Helena, MT 59620-0131
406-444-3154

Contributions rates for the plan are required and determined by State law.

NOTE 12. EMPLOYEE BENEFIT PLANS-Continued

The contribution rates for 1998 expressed as a percentage of covered payroll are as follows:

Employee	Employer	Total
6.80%	6.80%	13.60%

The amounts contributed to the plan during the years ended June 30, 1996, 1997 and 1998 were equal to the required contribution each year. The amounts contributed by both the Board (including voluntary contributions by employees as permitted by State law) were as follows:

Fiscal Year 1996- $20,651
Fiscal Year 1997- $22,656
Fiscal Year 1998- $24,866

Deferred Compensation Plan: The Board's permanent employees are eligible to participate in the State of Montana's deferred compensation plan. The compensation deferred is not available to employees until separation from State service, retirement, death, or upon an unforeseeable emergency, when still employed and meeting IRS specified criteria. The plan is governed by Internal Revenue Service Code (IRC) Section 457 and Title 19, Chapter 50, Montana Code Annotated (MCA). The Small Business Job Protection Act of 1996 resulted in changes to IRC Section 457 and Title 19, Chapter 50, MCA. Assets of the deferred compensation plan are required to be held in trust, custodial accounts or insurance company contracts for the exclusive benefit of participants and their beneficiaries. For plans in existence as of August 20, 1996, compliance is required by January 1, 1999.

NOTE 13. CONTINGENT ARBITRAGE REBATE TAX LIABILITY PAYABLE TO U.S. TREASURY DEPARTMENT

The Board has established an accrual for the contingent liability for estimated arbitrage payments due to the Treasury Department in accordance with the Internal Revenue Code. The amount of the rebate in general terms is the difference between the actual interest earned on investments and "allowable" interest as defined by Treasury Department Regulations. Ninety percent of the estimated rebate will be paid to the United States Treasury within 60 days of the end of every fifth bond year until the bonds are retired, at which time 100% of the remaining rebate amount is due.

Cash paid in arbitrage rebate taxes to the U.S. Treasury Department was $0 for fiscal years ending June 30, 1998 and 1997, respectively. The liabilities are $252,034 and $86,263 as of June 30, 1998 and 1997, respectively.

NOTE 14. SUBSEQUENT EVENTS

On September 16, 1998, the board issued $65,000,000 in bonds under the Single Family II Indenture.

NOTE 15. REFUNDING AND DEFERRED BOND ISSUANCE COSTS

During fiscal year 1998, the Board issued $51,780,000 in new debt. Series 1998A was issued on April 22, 1998. The 1998A issue partially refunded the 1985A bond issue. On June 1, 1998, the board redeemed $2,600,000 of the 1985A bonds.

Due to immateriality the Board did not defer the costs related to the refunding. The costs associated with the refunding were $64,535.98.

The refunding resulted in an economic gain of $1,051,328 and a difference in cash flows of $1,245,499.

NOTE 16. RELATED PARTY TRANSACTIONS

Employees, officers and stockholders of certain approved originator and servicing financial institutions of the Board also serve as directors of the Board of Housing.

NOTE 17. FISCAL YEAR 1997 RESTATEMENTS

During fiscal year 1998, the Board changed the way in which it accounted for amortization of premiums and discounts on certain investments. In prior years, the Board's discount notes and treasury strips were carried at cost, and the amortization on unmatured investments was recorded as interest receivable. In fiscal year 1998, all investments are carried at amortized cost. Investments and interest receivable were restated, for fiscal year 1997. The restatement resulted in an increase in investments and a decrease in interest receivable of $693,631.

NOTE 18. PRIOR PERIOD ADJUSTMENTS

The following prior period adjustments were made in fiscal year 1998:

Rebate expense-Single Family IV (Adjust estimate to actual payment)	($72,905)
Increase in Fair Market value of investments-Single Family, Fy 97	85,032
Decrease in Fair Market value of investments-Multifamily, Fy 97	(3,411)
Total prior period adjustments	$ 8,716

Under GASB 31, the Board elected to make a prior period adjustment rather than restate the 1997 financial information presented.

MONTANA BOARD OF HOUSING,
A COMPONENT UNIT OF THE STATE OF MONTANA
SINGLE FAMILY COMBINING BALANCE SHEET
JUNE 30, 1998

	Single Family I	Single Family II	Single Family III
ASSETS			
Cash and cash equivalents	543,642	1,119,706	19,129
Investments	37,675,384	112,136,941	2,246,798
Mortgage loans receivable	76,942,430	279,150,004	5,110,872
Interest receivable--Investments	187,161	1,032,550	35,209
Interest receivable-Mortgages	520,359	1,893,055	49,789
Deferred bond issuance costs, net	1,040,281	3,584,137	77,101
Fixed assets	33,938	92,210	-
Prepaid expense	9,198	24,501	-
Cash Collateral for Securities Lending	11,571	24,587	-
Total assets	116,963,964	399,057,691	7,538,898
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	55,570	217,076	3,137
Accrued interest bonds payable	446,747	2,079,388	135,052
Cost of Issuance Payable	-	86,959	-
Bonds payable, net	91,295,000	333,959,967	6,930,000
Less: Deferred refunding costs	(14,076)	818,756	-
Arbitrage tax payable to U.S. Treasury Department	-	91,382	-
Accrued compensated absences	8,342	21,454	-
Cash Collateral for Securities Lending	11,571	24,587	-
Total liabilities	91,803,154	337,299,569	7,068,189
RETAINED EARNINGS:			
Reserved Retained Earnings- Pledged to Bondholders			
Unrealized Gains		3,003,707	
Single Family Programs	21,276,770	39,509,407	470,709
Reverse Annuity Mortgag	350,000		
Multifamily Project Commitments	220,000		
Various Recycled Mortgage Programs	3,239,040	19,245,008	
Cash Assistance Program	75,000		
Total Retained Earnings	25,160,810	61,758,122	470,709
Total Liabilities and Retained Earnings	116,963,964	399,057,691	7,538,898

MONTANA BOARD OF HOUSING,
A COMPONENT UNIT OF THE STATE OF MONTANA
SINGLE FAMILY COMBINING BALANCE SHEET
JUNE 30, 1998

	Single Family IV	Single Family V	Single Family VI	Single Family VII
ASSETS				
Cash and cash equivalents	34,525	20,240	32,450	15,411
Investments	2,133,607	2,095,315	2,555,419	2,404,324
Mortgage loans receivable	5,838,698	7,259,926	7,828,443	7,409,367
Interest receivable--Investments	38,782	36,325	40,014	38,336
Interest receivable-Mortgages	56,719	63,094	62,931	68,539
Deferred bond issuance costs, net	98,124	111,590	123,592	111,183
Fixed assets	-	-	-	-
Prepaid expense	-	-	-	-
Cash Collateral for Securities Lending	-	-	-	-
Total assets	8,200,455	9,586,490	10,642,849	10,047,160
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	3,485	4,236	5,632	4,175
Accrued interest bonds payable	158,224	175,182	194,464	186,091
Cost of Issuance Payable	-	-	-	-
Bonds payable, net	7,780,000	9,080,000	10,115,000	9,500,000
Less: Deferred refunding costs	-	-	-	-
Arbitrage tax payable to U.S. Treasury Department	97,583	40,140	22,929	-
Accrued compensated absences	-	-	-	-
Cash Collateral for Securities Lending	-	-	-	-
Total liabilities	8,039,292	9,299,558	10,338,025	9,690,266
RETAINED EARNINGS:				
Reserved Retained Earnings-Pledged to Bondholders				
Unrealized Gains				
Single Family Programs	161,163	286,932	304,824	356,894
Reverse Annuity Mortgag				
Multifamily Project Commitments				
Various Recycled Mortgage Programs				
Cash Assistance Program				
Total Retained Earnings	161,163	286,932	304,824	356,894
Total Liabilities and Retained Earnings	8,200,455	9,586,490	10,642,849	10,047,160

MONTANA BOARD OF HOUSING,
A COMPONENT UNIT OF THE STATE OF MONTANA
SINGLE FAMILY COMBINING BALANCE SHEET
JUNE 30, 1998

	Single Family VIII	Single Family IX	Single Family X	Combined totals
ASSETS				
Cash and cash equivalents	32,606	12,713	9,006	1,839,428
Investments	2,017,099	2,755,906	2,493,699	168,514,492
Mortgage loans receivable	10,392,290	10,342,028	12,402,050	422,676,108
Interest receivable--Investments	32,106	41,613	34,278	1,516,374
Interest receivable-Mortgages	80,613	79,203	84,084	2,958,386
Deferred bond issuance costs, net	153,034	155,557	187,020	5,641,619
Fixed assets	-	-	-	126,148
Prepaid expense	-	-	-	33,699
Cash Collateral for Securities Lending	-	-	-	36,158
Total assets	12,707,748	13,387,020	15,210,137	603,342,412
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	7,411	6,105	5,946	312,773
Accrued interest bonds payable	220,991	233,692	252,036	4,081,867
Cost of Issuance Payable	-	-	-	86,959
Bonds payable, net	12,130,000	12,875,000	14,945,000	508,609,967
Less: Deferred refunding costs	-	-	-	804,680
Arbitrage tax payable to U.S. Treasury Department	-	-	-	252,034
Accrued compensated absences	-	-	-	29,796
Cash Collateral for Securities Lending	-	-	-	36,158
Total liabilities	12,358,402	13,114,797	15,202,982	514,214,234
RETAINED EARNINGS:				
Reserved Retained Earnings- Pledged to Bondholders				
Unrealized Gains				3,003,707
Single Family Programs	349,346	272,223	7,155	62,995,423
Reverse Annuity Mortgag				350,000
Multifamily Project Commitments				220,000
Various Recycled Mortgage Programs				22,484,048
Cash Assistance Program				75,000
Total Retained Earnings	349,346	272,223	7,155	89,128,178
Total Liabilities and Retained Earnings	12,707,748	13,387,020	15,210,137	603,342,412

MONTANA BOARD OF HOUSING,
A COMPONENT UNIT OF THE STATE OF MONTANA
SINGLE FAMILY COMBINING STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN RETAINED EARNINGS
JUNE 30, 1998

	Single Family I	Single Family II	Single Family III	Single Family IV
REVENUES:				
Interest Income-mortgage loans	4,336,707	19,939,235	592,467	669,097
Interest Income-Investments	3,370,460	4,927,809	130,372	145,724
Fee income	8,438	24,045	-	-
Gain (loss) on sale of investments	-	2,853,272	-	-
Other income	-	886	-	-
Securities Lending Income	-	1,952	-	-
Total revenues	7,715,605	27,747,199	722,839	814,821
EXPENSES:				
Interest on bonds	5,363,347	20,151,223	604,921	705,654
Servicer fees	221,572	1,065,977	25,443	28,040
Amortization of bond issuance costs	29,891	266,139	6,295	7,627
General and administrative	249,630	703,946	7,752	8,673
Arbitrage rebate tax	-	49,255	-	11,991
Loss on redemption	-	276,270	18,903	19,718
Securities Lending Expense	-	1,904	-	-
Total expenses	5,864,440	22,514,714	663,314	781,703
Net operating income (loss)	1,851,165	5,232,485	59,525	33,118
Loss on disposal of fixed assets	(6,069)	(24,730)	-	-
Net income (loss)	1,845,096	5,207,755	59,525	33,118
Retained Earnings, beginning of year:				
Reserved Retained Earnings-Pledged to Bondholder	23,465,714	56,465,335	411,184	200,950
Prior Period adjustments		85,032	-	(72,905)
Transfers out	(150,000)	-	-	-
Retained Earnings, end of year:				
Reserved Retained Earnings-Pledged to Bondholder	25,160,810	61,758,122	470,709	161,163

MONTANA BOARD OF HOUSING,
A COMPONENT UNIT OF THE STATE OF MONTANA
SINGLE FAMILY COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN RETAINED EARNINGS
JUNE 30, 1998

	Single Family V	Single Family VI	Single Family VII
REVENUES:			
Interest Income-mortgage loans	730,704	811,353	786,754
Interest Income-Investments	152,181	162,543	159,890
Fee income	-	-	-
Gain (loss) on sale of investments	-	-	-
Other income	-	-	-
Securities Lending Income	-	-	-
Total revenues	882,885	973,896	946,644
EXPENSES:			
Interest on bonds	769,645	845,994	822,539
Servicer fees	32,529	36,122	34,316
Amortization of bond issuance costs	7,665	8,167	8,037
General and administrative	9,980	10,684	10,500
Arbitrage rebate tax	26,151	5,471	-
Loss on redemption	19,969	17,753	19,558
Securities Lending Expense	-	-	-
Total expenses	865,939	924,191	894,950
Net operating income (loss)	16,946	49,705	51,694
Loss on disposal of fixed assets	-	-	-
Net income (loss)	16,946	49,705	51,694
Retained Earnings, beginning of year:			
Reserved Retained Earnings-Pledged to Bondholde	269,986	255,119	305,200
Prior Period adjustments	-	-	-
Transfers out	-	-	-
Retained Earnings, end of year:			
Reserved Retained Earnings-Pledged to Bondholde	286,932	304,824	356,894

MONTANA BOARD OF HOUSING,
A COMPONENT UNIT OF THE STATE OF MONTANA
SINGLE FAMILY COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN RETAINED EARNINGS
JUNE 30, 1998

	Single Family VIII	Single Family IX	Single Family X	Combined totals
REVENUES:				
Interest Income-mortgage loans	935,891	971,042	1,023,789	30,797,039
Interest Income-Investments	170,660	183,007	154,036	9,556,682
Fee income	-	-	-	32,483
Gain (loss) on sale of investments	-	-	-	2,853,272
Other income	-	-	-	886
Securities Lending Income	-	-	-	1,952
Total revenues	1,106,551	1,154,049	1,177,825	43,242,314
EXPENSES:				
Interest on bonds	965,215	1,019,131	1,066,078	32,313,747
Servicer fees	43,730	45,733	51,480	1,584,942
Amortization of bond issuance costs	10,141	10,883	11,708	366,553
General and administrative	11,056	10,098	11,039	1,033,358
Arbitrage rebate tax	-	-	-	92,868
Loss on redemption	26,039	23,774	18,887	440,871
Securities Lending Expense	-	-	-	1,904
Total expenses	1,056,181	1,109,619	1,159,192	35,834,243
Net operating income (loss)	50,370	44,430	18,633	7,408,071
Loss on disposal of fixed assets	-	-	-	(30,799)
Net income (loss)	50,370	44,430	18,633	7,377,272
Retained Earnings, beginning of year:				
Reserved Retained Earnings-Pledged to Bondholde	298,976	227,793	(11,478)	81,888,779
Prior Period adjustments	-	-	-	12,127
Transfers out	-	-	-	(150,000)
Retained Earnings, end of year:				
Reserved Retained Earnings-Pledged to Bondholde	349,346	272,223	7,155	89,128,178

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